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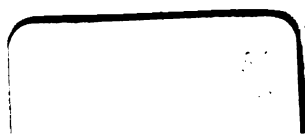
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STATE AND LOCAL TAXATION

STATE AND LOCAL TAXATION

SIXTH ANNUAL CONFERENCE

UNDER THE AUSPICES OF THE
NATIONAL TAX ASSOCIATION

// HELD AT DES MOINES, IOWA

SEPTEMBER 3 TO 5, 1912

ADDRESSES AND PROCEEDINGS

MADISON, WIS.

NATIONAL TAX ASSOCIATION

1913

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NATIONAL TAX ASSOCIATION

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1912-1913

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INTRODUCTION

The Seventh Annual Conference on State and Local Taxation was marked by a closer association of the Conference and the National Tax Association proper, the adoption of several constitutional amendments, a complete change in the officers of the Association, and the regrettable inability of the President, Mr. Foote, to preside over the meetings. Mr. Foote was present, however, and at the morning session Thursday, September 5th, delivered an informal word of greeting and farewell.

His annual address, delivered for the first time both to the delegates of the Conference and the members of the Association, was read by Mr. Purdy at a special meeting held on Wednesday evening, September 4th. It expresses so clearly the relation between the Conference and the Association, and the spirit and purpose which animate both, that is incorporated here as part of the introduction.

ANNUAL ADDRESS OF THE PRESIDENT

ALLEN RIPLEY FOOTE

TO MEMBERS AND DELEGATES:

GENTLEMEN:—My remarks as president of this association are this year, as you will observe, addressed not only to the members of the association but also to the conference delegates.

This innovation is made this year in pursuance of a general purpose to bring about a closer association between the association and the conference, as such.

In reality the two, while technically distinct, are yet interdependent one upon the other. The association on the one hand has as its main object and perhaps its sole purpose, the expression of the collective thought of experienced administrators, students and others on the various branches of taxation; this expression being made necessarily through an annual conference made up of members and delegates. The

conference, however, owes its existence and its continuance to the association, thus the two are necessarily parts of a single body. In recognition of this situation it is wise to be guided by experience which clearly indicates that better and more effective work can be done and a stronger organization can be made when this unity is emphasized and delegates representing states and educational institutions, when assembled, are placed in position to take a more active interest in the association and thus aid in developing its capacity for accomplishing the purposes of all assembled.

With this general end in view, it has been decided to hold this joint meeting of the association and the conference prior to the last session of the conference, to be immediately followed by a business meeting of the association at which such business as may be presented can be transacted.

This change carries with it the direct organization of the conference by the executive committee of the association and the presentation of the president's annual address to the joint meeting of the association and conference, thus making it a part of the proceedings. Heretofore the president's address has been presented to the members of the association only, at its annual business meeting held after the conference had adjourned, and therefore has not been brought to the attention of delegates.

The association, at this annual meeting, will consider amending its constitution with the purpose of further emphasizing this general change, so that in the future, if desired, all business, including the election of officers, may be transacted at a session held *before* the last session of the conference as the constitution now provides. This will enable delegates, if they do not happen to be members of the association, to become fully informed regarding the organization and work of the association. It is hoped that this will inspire them with a determination to take a permanent personal interest in the work of the association, and thus become a distinct and effective aid in accomplishing purposes which all desire.

It is further proposed that members of the association, as such, when they have continued their membership for a sufficient period of time to show that they have an active and permanent interest, shall be entitled to an equal privilege with

the official delegates in the deliberations of the annual conference.

This change will be considered by the association this year. If adopted, it will govern future conferences. It is important that delegates and others attending this conference shall give consideration to this question, as a change of this character should have, substantially, the unanimous approval of all who may be deemed to be in a position to pass judgment upon its wisdom. The general benefit to be derived from a cordial cooperation between all who attend these conferences, whether members of the association or not, seems too obvious to need further elaboration.

Those of us who have had the duty of carrying out the details involved in arranging for annual conferences, and the general work of the association, have felt that possibly the delegates and others did not fully appreciate the great advantages which will accrue to all when the actual membership of the association is made more extensive and more universal. There are a good many considerations, other than financial, connected with these details. It is unnecessary for me to say that financial considerations are of distinct importance or to point out that an immense advantage will accrue when the association is placed in a position where it can count upon a large permanent membership and a consequent permanent income from the collection of membership dues sufficient to provide it with adequate funds.

Upon this subject a change is contemplated with regard to the annual dues for membership in the association. It is an open question as to just what the annual membership dues in such an association as this should be.

It is highly desirable that a full expression of opinion on all these questions should be obtained and to that end, I urge all members and delegates to consider them carefully and thus be prepared to discuss and act upon them at this annual meeting.

Other changes have been suggested and will be discussed and acted upon, but the ones to which I have referred somewhat in detail are of the most vital importance to the continued welfare and prosperity of this association and these annual conferences. These other suggested changes have to

do with a more effective expression of the purposes of the association. It may well be that, as we grow in years and experience, further changes in methods of procedure will be found helpful, but such changes will have to come slowly and after mature consideration by the membership.

The immediately important program is to establish the association and the conference on a permanent and satisfactory basis, both as to organization and as to available income. To these two purposes I invite your special attention at this time.

It is believed that this change in methods of procedure will be cordially approved and sincerely appreciated by the members of the association and by all appointed delegates who attend its annual meetings and conferences.

The purpose of this association, as announced in its constitution, is:

"To formulate and announce, through the deliberately expressed opinion of an annual conference, the best informed economic thought and ripest administrative experience available for the correct guidance of public opinion, legislative and administrative action on all questions pertaining to state and local taxation, and to interstate comity in taxation."

As this purpose becomes more broadly and correctly understood, the better able we shall be to give it definite application in each of the several states.

This purpose includes two subjects:

(1) The economic principles involved in taxation laws and policies, and,

(2) The efficiency of administrative machinery.

The annual conferences held by this association have provided an open forum for the full and free discussion of the economic effects of tax laws from the standpoint not only of public revenue, which primarily concerns officials charged with the duty of the administration of existing statutes, but also from the standpoint of teachers of economic theory and of all citizens upon whom ultimately falls the entire burden of taxation. The five volumes of the proceedings of these annual conferences are a mine of information that otherwise would be practically inaccessible, and from which can be extracted the views of careful students of fundamental princi-

ples and the recorded results of the administration of existing statutes, and also of some which we hope will exist no longer.

In such work the aim should be to maintain the utmost liberality towards all schools of thought, all grades of officials, that from a free exchange of their ideas and experiences may be formulated rules of action that will advance the common good.

When popular education has developed a correct opinion upon the economic effects of taxation, we shall hear more of the benefits than we do of the burdens of taxation; then the work of tax assessors will be regarded with kindly interest.

The economic effects of tax laws, however, can be demonstrated only through a continuous and an effective administration of such laws and an intelligent comparison of results. It is obvious that such administration and comparisons can result only from the work of those who make a profession of the duties of tax assessors and collectors.

Here, as in general economic conditions, efficiency, which spells prosperity, must be based on a properly laid foundation. Efficient service in this, as in any occupation, is dependent upon continuous and properly paid employment. Appointment to and tenure of office must be based on ability and service rendered for which compensation must be adequate. It is unaccountably strange that electors who know these requirements are complied with in all successfully managed private business should be oblivious to them when seeking improvements in the management of public business.

Two lines of publicity work must be developed to secure proper recognition of these facts—one for the education of taxpayers and one for the education of legislators, tax assessors and collectors.

Those who take into consideration all occupations and industries in all states can guide those who have to deal with one state only, and those who study these questions as related to their state can guide those who have to deal with local communities within the state.

The problems involved may not be identical in any two states at the same time, but they are certain to be practically identical in all states at some time.

This association, through the discussions of its conferences,

and through the individual research of such of its members and others as may prepare papers, will formulate accurate information regarding the experience of each state on each question involved and make such information available for the guidance of any state having need of it. Legislators and state administrators can thus get what they need quicker, and in a much more serviceable shape, through one central source of information than they can by applying to forty-eight sources, as they must do in the absence of a central source.

In such work, all persons seriously and actively interested must be free givers in order that they may freely receive when in need. Every city, county and state official should therefore add his yearly contribution of the results of his study and experience to the general fund of information from which all may freely draw according to their need for guidance in dealing with questions involved in tax legislation or administration as they may present themselves in their respective states.

The day will soon come when the value of such an exchange of experiences and such an accumulation of information will be widely recognized. Legislators and state officials will regard it as an economical use of public funds to provide for the expenses of public officials in attending meetings of county and state associations, and of the National Tax Association. A due regard for a sound public policy will require them to attend such meetings as a part of their official duty. Individual taxpayers will recognize the fact that a small annual contribution to the general expenses of the National Tax Association will be a profitable investment that will be returned to them many fold in the establishment of better methods of taxation assessment and collection, and in the sense of satisfaction which comes from the knowledge that the burdens of taxation are imposed only after intelligent and careful study.

For all of these purposes the reports of the proceedings of the annual conferences of the National Tax Association, and of state and county associations inspired by its purposes and work, will be an ever increasing source of strength. All who are informed know that the ideal we have before us must be of slow development. The margin is very wide between the ideal and the realized good.

The foundation groups for improvement of administration are county organizations of city and township assessors and collectors and their assistants, united in state organizations with state assessors and collectors; or in state associations in whose deliberations the student and the taxpayer can participate.

In a number of western states it has been the custom for several years to hold annual meetings of county assessors in which fundamental principles are being discussed more and more in connection with the difficulties of local administration. For example, the report of the tenth annual meeting of the county assessors association of California, held this year, contains an abstract of a number of instructive addresses on various phases of taxation and assessment.

In Connecticut, State Tax Commissioner Corbin called a meeting this spring of local assessors, at which there were a number of able addresses and discussions.

A district conference of the state tax officials of the New England states was held in Boston early in the year.

In July the members of the county boards of taxation of New Jersey met and organized an association, which is expected to hold at least two meetings annually to discuss the improvement of assessment methods and tax laws.

The North Dakota tax association has held three successful annual meetings, under the masterful guidance of Professor James E. Boyle, in which taxpayers, as well as officials, have participated to their mutual benefit. The influence of these meetings can be seen in the enactment of the law establishing a state tax commission this year.

A similar tax conference was held in Des Moines, Iowa, in March of this year, organized by Prof. John E. Brindley. Tax conferences have been held within a year in several southern states which will undoubtedly develop permanent organizations.

The first state tax conference, organized on the model of the National Tax Association Conference, was held in Utica, New York, January 12, 1911. We called this *our first child*.

The second New York conference was held in Buffalo in January of this year. The third will be held in Binghamton, New York, in January, 1913.

A county association of tax officials was organized for Chemung county at Elmira, New York, on August 8, 1912, which acknowledged the two state conferences above recorded as its source of inspiration. This makes the tax association of Chemung county, New York, the *first grandchild* of the National Tax Association.

There will be a good sized family when this association has a child in every state and a grandchild in every county.

When that day comes there will be a complete set of the proceedings of the annual national conferences on state and local taxation in every public library of the first class in every state, where they can be consulted by any one desiring information on the subject of taxation.

Every local tax official who desires to be well and correctly informed regarding the improvements made in tax laws and their administration in all states, will own a complete set of the proceedings of the annual conferences of the National Tax Association; will hold a membership in his county and state association, and will be in attendance at every meeting.

Every state tax official will own a complete set of the proceedings of the national tax conferences; will be a member of the National Tax Association and will be unwilling to sustain the loss involved in a failure to attend its annual meetings.

Beyond this, all county and state tax officials will seek a substantial backing for their work by using their influence, in such ways as may appear to them to be proper and right, to induce public spirited taxpayers in their respective counties and states to become members of the National Tax Association with the view of having them correctly informed on the problems of tax legislation and administration, and thus be in a position to sustain any work that may be undertaken for the improvement of local and state tax laws and administration.

The strongest obstacle to the realization of the ideal here set before you will be found in the political election or appointment of local and state tax officials and the apathy of taxpayers. When these obstacles are cleared away the margin between the ideal and the realized good will be visibly narrowed and may ultimately disappear.

These conferences are composed of those who meet for an exchange of views and experiences; to discuss but not to legis-

late or dictate. We are fair minded thinkers, tolerant of opinions but intolerant of dictation. Holding as we do all kinds of views, we find these conferences helpful because they present a program for discussions only, with the view of guiding legislative action in making helpful improvements. We can well afford to pull together for the upbuilding of a strong and permanent membership because we are not handicapped with policies which cannot be expected to appeal with equal attractiveness to all prospective members. In these matters we have thus far been most fortunate.

At the fifth annual conference a request was made that each group of delegates make a written report on the conference to the governor of their state or the president of the educational institution represented by them. This request was made at the close of the last session after many delegates had departed.

I am pleased to report that a number of delegates complied with this request and furnished this association with copies of their very satisfactory and helpful reports. I am sure that all who have seen a copy will be glad to have me make special mention of the printed report issued by the Kansas tax commission which was sent broadly throughout their state.

Such reports, if properly prepared and issued in each state each year, will be certain to aid the improvement of tax laws and administration in every state. I hope each member and delegate present at this conference will be inspired by its proceedings with a determination to spread a knowledge of its work throughout his state. By doing this they will teach the truth that *the treasures of wisdom are multiplied by the number of those between whom they are divided.*

May we all profit by being in attendance at this conference. May we all meet again at the conference to be held in 1913. This is my word of welcome,—my parting wish.

FIRST SESSION

TUESDAY MORNING, SEPTEMBER 3, 1912

ORGANIZATION OF CONFERENCE

1. TEMPORARY CHAIRMAN

Lawson Purdy, Vice-President National Tax Association

2. ADDRESSES OF WELCOME

3. PERMANENT CHAIRMAN

Lawson Purdy, President Department of Taxes and Assessments, New York City

4. PERMANENT SECRETARY

William Ryan, Assistant Secretary New York Tax Reform Association, New York City

5. ADOPTION OF RULES

ORGANIZATION OF CONFERENCE

The Sixth Annual Conference on State and Local Taxation was called to order at the Savery Hotel, Des Moines, Iowa, Tuesday, Sept. 3, 1912, 10:30 a. m.

VICE-PRESIDENT PURDY: Gentlemen, it is with great regret that I have to apologize for the president of the association, Mr. Foote, who is not feeling well and is unable to come this morning and open the conference, although he is here present in the hotel and his heart is with us in our gathering. We are honored by the presence of the mayor of the city of Des Moines, Hon. James R. Hanna, who will welcome you to the city of Des Moines.

[After addresses of welcome by Hon. James R. Hanna, Mayor of Des Moines, and Hon. B. F. Carroll, Governor of Iowa, and responses on behalf of the conference by Hon. Z. W. Bliss and Prof. James E. Boyle, the conference organized by electing Mr. Lawson Purdy permanent chairman and Mr. William Ryan secretary.]

THE CHAIRMAN: The next item of business is the adoption of rules for the conference. Mr. Pleydell, secretary of the association, will read the rules of the preceding conference.

MR. PLEYDELL: The constitution of National Tax Association requires that the preparations for these conferences shall be made by the executive committee. For the information especially of those delegates who are in attendance for the first time, it should be stated that the conference is composed primarily of delegates appointed by governors and universities, and that the voting power on all expressions of opinion of the conference is confined to these delegates, as set forth in the extract from the constitution printed in the program. The sessions and discussions, however, are open to all. The association has prepared a program, and has made such advance preparations as are necessary to facilitate the work of the conference.

In order to facilitate the organization of the conference the committee has prepared rules similar to those governing former conferences, with some minor changes, and submits them for your consideration, as follows:

RULES

1. The organization and procedure of the conference shall be governed by Article 6 of the Constitution of the National Tax Association, limiting the voting power on expression of opinion to delegates appointed by governors and presidents of universities and colleges. The conference shall not be held to indorse any address or opinion expressed in discussion except as set forth in regularly adopted resolutions.

2. Standing committees shall be appointed as follows:

(a) A committee of five on credentials, named by the chair.

(b) A committee of five on rules and program, named by the chair.

(c) A committee on resolutions, to be composed of one member from each state represented, to be selected by the delegates present from each state.

3. Resolutions shall be read by title and referred to the resolutions committee without debate. The resolutions to be acted upon shall be read to the conference not later than 5 o'clock Thursday afternoon.

4. A vote to accept the report of a committee shall mean only that such report is received for discussion and printing in the proceedings, and does not commit the conference to any specific conclusions set forth in the report.

5. Addresses shall be limited to twenty minutes.

6. Discussion shall follow each paper, where the subject is different from the following one, and shall follow a group of papers where the subject is similar.

7. Each speaker in discussion shall be limited to five minutes, and the general discussion shall not exceed thirty minutes unless otherwise voted. The privilege of the floor shall be extended to members of the National Tax Association and public officials.

8. The order of discussion shall be:

(a) Invited speakers.

(b) Those who give notice of their desire to discuss a particular paper.

(c) General discussion by delegates and visitors.

9. The ordinary rules of parliamentary procedure shall govern otherwise.

[After discussion the rules as above printed were adopted.]

THE CHAIRMAN: I should say, gentlemen, that in accordance with the rules each state delegation will be kind enough to select its member of the committee on resolutions and report the name to Mr. Ryan, the secretary of the conference, sometime before the end of the afternoon session, so that the resolutions committee can then be announced.

MR. FRANK ORR (Oklahoma): Of the delegation of six appointed in my state I understand only one is here. There have since been three or four more appointed and they are here, but they are not shown on the list. Will it be satisfactory to name any of those present, only one of which is, I think, on the permanent list?

THE CHAIRMAN: I think it would be perfectly competent for the state delegation to settle it to suit themselves. The committee on credentials and the committee on program will be announced at the same time as the committee on resolutions.¹

Before this meeting adjourns I wish to request those who read papers to determine in advance how much of those papers, if they are long, should be read, in order to bring them within the twenty-minute rule. That is in the interest of all the delegates. Please be as careful as you can to keep to twenty minutes. If there is no further business the morning session will stand adjourned until this afternoon at 2 o'clock.

¹ The personnel of these committees is given in the Appendix, pp. 530, 531.

SECOND SESSION

TUESDAY AFTERNOON, SEPTEMBER 3, 1912

CHAIRMAN, LAWSON PURDY, NEW YORK

PROGRAM

1. LEGISLATION OF 1912 AND PENDING CONSTITUTIONAL AMENDMENTS.
Arthur C. Pleydell, Secretary National Tax Association, New York City.
2. TAX REFORM IN LOUISIANA.
W. O. Hart, Member First Special Tax Commission of Louisiana, New Orleans.
3. DISCUSSION.
4. THE NORTH DAKOTA STATE TAX ASSOCIATION.
James E. Boyle, President North Dakota Tax Association, Grand Forks, N. D.
5. STATE CONFERENCES ON TAXATION.
Edward L. Heydecker, Assistant Tax Commissioner, New York City, and Secretary State Conferences on Taxation.
6. DISCUSSION.
7. THE STUDY OF TAXATION IN AMERICAN COLLEGES.
Edwin S. Todd, Professor of Economics, Miami University, Oxford, Ohio.

LEGISLATION OF 1912 AND PENDING CONSTITUTIONAL AMENDMENTS

BY ARTHUR C. PLEYDELL

Secretary National Tax Association

Only twelve legislatures have met in regular session, and two in special session, so far this year. Fewer changes in tax laws have been enacted than in 1911. There are, however, more constitutional amendments on the subject of taxation before the people to be voted on this fall than have ever been pending at one time; and probably more special commissions investigating various phases of taxation.

In two states, New Hampshire and Ohio, amendments have been submitted by constitutional conventions; in five states, Kentucky (to be voted on in 1913), Louisiana, Massachusetts, Oregon, Utah, by legislative action; in three states, California, Missouri, Oregon, by initiative petition. In Oregon, where amendments are pending both by initiative petition and legislative action, the legislature has submitted proposed changes in the tax law by initiative petition, through the action of a committee co-operating with the tax commission.

Legislation

The most important changes in tax laws this year are perhaps those enacted in Rhode Island. A permanent tax commission of three members was authorized and has been appointed; its duties include supervision of local assessments, furnishing blank assessment rolls at the expense of the state, and assessing the "corporate excess" of industrial corporations. Land and buildings are to be separately assessed. Intangible personal property is to be taxed at the uniform rate of forty cents on the hundred dollars throughout the state.

The same rate applies to bank and trust company shares and to "corporate excess" but the tax goes to the state. The term "corporate excess" means substantially the difference between the value of the entire property of the corporation (without offset for bonds or other debt) and the assessed value of its real estate and tangible personal property; allowance being made for property outside the state. A gross earnings tax for state purposes has been imposed on public service corporations, ranging from 1 to 3 per cent.

Massachusetts revised its inheritance tax law to eliminate the taxation of non-residents, going further than the model law of this association and the New York legislation of 1911. The only property of a non-resident decedent now taxable in Massachusetts is real estate; both tangible and intangible personalty being exempt. The rates have been increased and are substantially the same as those adopted in New York last year, though applied somewhat differently; the exemption to direct heirs is larger (\$10,000), and there is an intermediate class between direct and collateral, consisting of brothers and sisters, nephews and nieces.

Acts were passed providing that the state tax commissioner may bring suit against a local collector or his bond for taxes which remain uncollected and unrebated at the end of three years; and providing that owners of storage warehouses must allow the assessors to copy the names of owners of property stored in their care.

New York passed few tax laws this year, as the important legislation of 1911 was not enacted until July of that year. Household furniture and personal effects to the value of \$1,000 have been exempted, following a recommendation of the Buffalo Tax Conference. The prior exemption was \$250 for certain enumerated articles. Three laws were passed to encourage replanting of forest land and the maintenance of woodlots by a reduction in assessment, subject to the approval of the conservation commission; in the case of large areas replanted the trees are to be exempt entirely and the land alone is to be taxed.

The Minnesota legislature in special session passed a bill

increasing the railroad gross earnings tax from four to five per cent., this, however, must be ratified by the people.

Mississippi enacted a state "privilege" tax of twenty cents per acre upon each person, association, firm or corporation, "pursuing the business of buying, owning or holding more than one thousand acres of timber lands" in the state. Also a privilege tax on "all transfers other than deeds of trust or mortgages of realty" of one dollar per thousand or fractional part of thousand above five hundred dollars on the consideration, which shall in no case be less than the value of the property.

A graduated income tax was passed, reported to be on incomes in excess of \$2,500, at the rate of five mills, increasing to 20 mills on incomes of \$20,000 and upward. Another report indicates an error in the law making it ineffective. Several inquiries have failed to secure exact information.

The Virginia legislature received the report of its special tax commission and gave considerable attention to taxation; but the only legislation was an increase of the income tax exemption to \$2,000.

The federal income tax amendment was ratified by Arizona, Louisiana, and Minnesota, making a total of thirty-four states, out of a total thirty-six needed to make the amendment effective.

Permanent and special commissions

Arizona authorized a permanent tax commission of three members, who have been appointed. At the expiration of terms of present members, their successors will be elected, one every two years for a six years term. In Colorado and North Dakota permanent commissions of three members each have been appointed pursuant to legislation of 1911. The Rhode Island commission has been mentioned.

Special investigating commissions were authorized by six states, as follows:

Connecticut, just after our conference in 1911, three members, to investigate public service corporation taxes in that state.

Kentucky, this year, five members, to investigate revenue and taxation generally and report a plan for revision, to the governor in 1913 and to the legislature in 1914.

Maryland, six members, to report to legislature in 1913.

New Jersey, five members, to investigate the present methods of making assessments for taxes and report to the legislature of 1913.

Utah, three members, to investigate taxation generally.

Louisiana, in July authorized a commission of thirty-three members that began work at once and reported to a special session of the legislature, which met August 12. The legislature has submitted to the people a series of amendments to the constitution.

Canada

The province of Alberta has established this year the land value tax system for all local revenues outside of cities. For a number of years it has been optional for cities and villages to exempt improvements and many have done so; there has been no personal property tax, but some business taxes based on area of premises occupied have been levied.

At the legislative session, in February this year, a rural municipality act was passed; all municipalities organized under this act will be required to raise their revenue from a tax on the actual cash value of land; there is no provision whereby any other kind of taxes can be levied. A town act was also passed, with similar provisions, affecting all towns except two incorporated under an old special ordinance.

The village act was amended also, making it mandatory for all villages to raise the revenues from land values only. Many of them had taken advantage of the option to do this, but the system is now mandatory. No business tax can be levied by either towns or villages.

The cities carry on business under special charters, but most of them have exempted improvements and personal property.

Constitutional amendments

The amendments now pending are so varied in character that they cannot well be grouped into classes. In general, however, the majority of the amendments submitted by state legislatures follow the recommendation of this association, that "all state constitutions requiring the same taxation of all property, or otherwise imposing restraints upon the reasonable classification of property, should be amended by the repeal of such restrictive provisions."

Utah. The principal amendments are designed to abolish the uniform rule. One change omits from the section which now requires the taxation of all property not exempted by the constitution, the words "in proportion to its value." This part of the section will then read "All property in the state, not exempt under the laws of the United States, or under this constitution, or the laws of the state of Utah, shall be taxed as provided by law." Another section is amended by striking out the present requirement of "a uniform and equal rate of assessment and taxation on all property according to its value in money." In place of this is substituted a clause similar to the tax provision recommended to Arizona on behalf of this Association and adopted in 1910. The section as amended will read (in part):

"The legislature shall provide by law for a just and equitable assessment of the property of the state at its actual money value. All taxes shall be uniform on the same class of property within the territorial limits of the authority levying the tax, and shall be levied and collected for public purposes only."

The constitution now provides that mortgages on real and personal property shall be exempt; that deduction of debits from credits may be authorized, and for the usual exemptions of public and benevolent property; these provisions are not changed. The powers of the state board of equalization are increased so that it will practically be a state tax commission (of four members appointed by the governor). There is also a change relating to taxation of mines.

Kentucky. The legislature has submitted to the people, to be voted on at the November election 1913, an amendment repealing the present requirement of the uniform taxation of all property and substituting the following:

"Taxes shall be levied and collected for public purposes only and shall be uniform upon all property of the same class subject to taxation within the territorial limits of the authority levying the tax; and all taxes shall be levied and collected by general laws. The general assembly shall have power to divide property into classes and to determine what class or classes of property shall be subject to local taxation. Bonds of the state and of counties, municipalities, taxing and school districts, shall not be subject to taxation."

It is further provided that any laws passed pursuant to this section prior to 1917 must be referred to a vote of the people, and after that date may be so referred, or if not, a referendum petition may be filed within four months against the act or any part thereof. A majority of votes cast on the proposition shall prevail.

New Hampshire. The constitution now provides that the legislature may "impose and levy proportional and reasonable assessments, rates and taxes." This prevents classification, although the legislature may exempt any property entirely, and, as in Pennsylvania, no property is held taxable unless specifically mentioned in the law. The constitutional convention held in June had before it a resolution to omit the word "proportional" from the constitution. This was rejected. Instead, an amendment was submitted adding to the present constitutional provision, the power to "specially assess, rate and tax growing wood and timber and money at interest including money in savings banks, and to impose and levy taxes on incomes from stock of foreign corporation and associations and from money at interest (except savings banks);" providing also that the income taxes may be graduated and exemptions granted and if levied no other taxes shall be levied on the property.

Another amendment provides that an income tax may be

imposed on public service corporations in lieu of a property tax. A third amendment provides that inheritance taxes may be graded and progressive.

Massachusetts. The legislature has passed for the second time an amendment which now goes to the people, providing that:

"Full power and authority are hereby given and granted to the general court (legislature) to prescribe for wild or forest lands such methods of taxation as will develop and conserve the forest resources of the commonwealth."

California. A home rule amendment has been submitted by initiative petition, empowering any county, city, town, district, or township, by vote of is qualified electors, to raise and collect revenue for its local purposes in such manner as it may determine; providing that such taxes or exemption therefrom shall be uniform upon any class of property.

Missouri. An amendment will be submitted by initiative petition designed to establish the single tax plan of raising revenue by the year 1920. All public bonds of the state and subdivisions are to be exempt immediately, and all other personal property in 1914 and thereafter. Improvements on land are to be exempt one fourth in 1914 and 1915; two-fourths in 1916 and 1917; three-fourths in 1918 and 1919, and entirely in 1920 and thereafter; with a \$3,000 exemption of homestead improvements in 1914. Lands (except as now exempt by law) and franchises for public service utilities, shall continue to be taxed. Poll taxes and business and occupation taxes are prohibited, except licenses in the interest of public health, peace and safety. The present laws for liquor licenses are not to be changed, nor shall the amendment limit the power of the state to tax any form of privilege, franchise or inheritance. Existing tax limit laws are repealed. Another amendment establishes a tax commission of three members in place of the present board of equalization.

Ohio is the one state where distinctly reactionary amendments are pending, proposing no change in the uniform rule which has been generally condemned for twenty years or more and from which other states are striving to free themselves,

but merely adding provisions to permit additional taxation.

The present tax provision of the Ohio constitution was adopted in 1851 and is as follows:

"Laws shall be passed, taxing by a uniform rule, all moneys, credits, investments in bonds, stocks, joint stock companies, or otherwise; and also all real and personal property according to its true value in money."

This provision has been criticised severely by investigating commissions of that state, and has been used generally by outsiders as an example of what should be avoided. The only modification secured in sixty years was the exemption of state and local bonds of Ohio in 1905. Various other attempts to amend this provision have been made, all failing because of the constitutional requirement that an amendment to be adopted must receive a majority of the total vote cast at the election. In 1908 an amendment to permit classification was submitted pursuant to the recommendation of a special tax commission, and received 339,000 affirmative votes, against 95,000 negative, but failed of a majority.

Largely as a result of dissatisfaction with the tax provisions of the constitution and the repeated failure of attempts to secure relief by the ordinary methods of amendment, a constitutional convention was called last year, and has submitted, among others, two amendments relating to taxation. These will be voted on to-day (September 3rd). A majority of the votes cast on an amendment decide its adoption or rejection.

One amendment changes the article (12) relating to taxation. The uniform rule clause is continued without alteration or modification. The existing exemption of public bonds is to be limited to those now outstanding, so that future issues will be taxable.

The following tax sections are added:

"7. Laws may be passed providing for the taxation of the right to receive, or to succeed to, estates, and such taxation may be uniform or it may be so graduated as to tax at a higher rate the right to receive, or to succeed to, estates of larger value than to estates of smaller value. Such tax may also be levied at different rates upon collateral and direct inheri-

tances, and a portion of each estate not exceeding twenty thousand dollars may be exempt from such taxation.

"8. Laws may be passed providing for the taxation of incomes, and such taxation may be either uniform or graduated, and may be applied to such incomes as may be designated by law; but a part of each annual income not exceeding three thousand dollars may be exempt from such taxation.

"9. Not less than fifty per centum of the income and inheritance taxes that may be collected by the state shall be returned to the city, village or township in which said income and inheritance tax originate.

"10. Laws may be passed providing for excise and franchise taxes and for the imposition of taxes upon the production of coal, oil, gas and other minerals."

The section now forbidding the general assembly to levy a poll tax is amended to prohibit any poll tax, or the requirement of any service that may be commuted in money.

It will be seen that the income, franchise and production taxes authorized must be, if levied, in addition to the ad valorem property tax upon the property from which the income is derived or in respect of which the franchise tax is paid. The present law forces the taxation of property and also the taxation of the evidences of ownership of property. The amendments will permit the taxation of incomes from both, and with the addition of taxes on franchises and production, sextuple taxation will easily be possible.

The other tax provision is in the amendment establishing the initiative and referendum. It reads as follows:

"The powers defined herein as the 'initiative' and 'referendum' shall not be used to pass a law authorizing any classification of property for the purpose of levying different rates of taxation thereon or of authorizing the levy of any single tax on land or land values or land sites at a higher rate or by a different rule than is or may be applied to improvements thereon or to personal property."

As the existing tax provisions of the constitution prohibit any such laws as are specified in this clause, and the only pending amendment of these tax provisions continues the prohibition, this further prohibition seems superfluous. It serves to indicate, however, the attitude of the convention towards any

proposal to depart from the rigid uniformity of the general property tax.

Under the general heading of Conservation of natural resources an article is added to the constitution providing in part that "Laws may be passed to encourage forestry, and to that end areas devoted exclusively to forestry may be exempted, in whole or in part, from taxation."

(NOTE. At the election held September 3rd, all the amendments relating to taxation and recited above were adopted as part of the constitution of Ohio.)

Louisiana. The amendments just proposed by a special session of the legislature will be described by Mr. Hart of New Orleans at the conclusion of this paper.

Oregon presents an interesting and somewhat complicated situation. There are eight state wide and two county tax measures pending, to be voted on in November. But despite contradictory and antagonistic provisions, the Oregon measures are all aimed against the uniform rule and general property tax,—a refreshing contrast to Ohio.

That the situation may be understood, it should be stated that at the election of 1910, three constitutional amendments were voted on. Two of these had been submitted by the legislature and repealed the uniform rule provisions of the constitution, leaving practically a free hand to the legislature or to the people through the initiative. These amendments were lost by a close vote, and a third, presented by initiative petition, was adopted by a narrow margin.

This amendment provided first, that no poll tax should be imposed; second, that no law enacted by the legislature in regard to taxation should become effective until ratified by the people at the next general election (biennial); third, that no restriction of the constitution should apply to any measure relating to taxation or exemption, approved by the people, whether passed by the legislature or submitted by initiative petition; fourth, it empowered the people "to regulate taxation and exemption within their several counties, subject to any general law which may be hereafter enacted."

At the session of 1911, the legislature voted to submit again the two amendments defeated in 1910 without change, except the addition of a clause definitely permitting the "apportionment plan" of raising state revenue by a levy on local budgets. It also submitted an amendment of the amendment adopted in 1910, repealing the county option and limitation on legislative action; but leaving the prohibition of a poll tax and adding a compromise that "the legislature shall not declare an emergency in any act regulating taxation or exemption."

The amendment of 1910 had securely tied the hands of the legislature. Even so slight a change in the law as the separate assessment of land and buildings, proposed by one bill introduced, could not have become effective without ratification at the forthcoming general election. Therefore no tax bills were passed. Instead, the legislature authorized a commission of seventeen members to confer and prepare any measures it desired, and secure signatures to initiative petitions so that the proposals could go on the ballot this fall. This commission was composed of five senators, seven members of the lower house, and the five state tax commissioners (the governor, secretary of state, treasurer, and two appointed members).

This commission to propose tax bills prepared four measures and has secured the necessary signatures to initiative petitions to have them submitted at the next election. These measures are:

- 1, a constitutional amendment permitting the taxation of incomes;
- 2, a law exempting household goods and personal effects actually in use;
- 3, a law exempting credits, (bonds, mortgages and shares, except bank stock or banking capital);
- 4, a law repealing the present inheritance tax and enacting a new measure embodying the provisions of the New York statute in respect to situs of property, eliminating double taxation of non-residents in accordance with the model law suggested by the National Tax Association. The rates increase to

5 per cent. direct and 12 per cent. collateral on bequests in excess of \$1,000,000.

Another constitutional amendment has been submitted by the group responsible for the successful amendment of 1910, and now styling itself the "Graduated single tax league." The title first given to this proposed amendment was "graduated single tax and exemption," but this has now been changed to the more appropriate one of "graduated specific tax and exemption amendment."

This amendment proposes a graduated tax upon land values or waterpower values, or franchise values of any kind, or rights of way of public service corporations, amounting to more than \$10,000 in one ownership in any one county. The tax ranges from \$2.50 per \$1,000 on the first ten thousand dollars above the exemption, up to \$30 per thousand (3 per cent.) on values over \$100,000. The tax collected is to be used first to pay the county's share of state tax, and then for various local purposes. Payment of this specific tax does not relieve the property from the ordinary tax rate.

The amendment provides also that personal property and improvements shall be exempt unless the people of any county vote to tax them by enacting a special county tax law.

The two appointive members of the state tax commission are to be abolished, and the governor is made "responsible for the enforcement of the tax and assessment laws, and for that purpose he is authorized to employ necessary assistance and to instruct and direct assessors and prosecuting officers."

The proponents of this graduated tax measure have submitted also in three counties, under the provisions of the 1910 amendment, measures to abolish the taxation of personal property and improvements.

This summary of pending constitutional amendments in the various states has omitted necessarily many details of the preliminary work done on behalf of the measures. Much of this work, however, is familiar to members of this association, as reports are made from time to time at these conferences, by those engaged in the work. These reports have also to some extent referred to the local conditions that have in large de-

gree determined the exact form of these various proposals. With one exception, the pending measures all indicate dissatisfaction with the rigid uniformity of the general property tax, and most of the changes proposed are in general accord with the recommendations and conclusions of these conferences.

Certainly the results of the various elections this fall will be scanned with keen interest by all who are striving, in one way or another, for progress towards better tax systems.

TAX REFORM IN LOUISIANA

BY W. O. HART

Member First Special Tax Commission of Louisiana

The subject of tax reform began to be agitated in Louisiana in 1906, with the result that the general assembly of that year passed an act authorizing the governor to appoint a tax commission to consider the matter and report to the next session of the general assembly.

The commission was appointed and in 1908 presented a report of its conclusions, with suggestions, looking to a radical reform in the tax methods of the state, but leaving the plan to be followed to be worked out by subsequent legislation.

Unfortunately other matters occupied the attention of the general assembly in 1908 and 1910—we have sessions but every two years—and the matter was not further considered at that time.

In the campaign of 1912, we had three candidates for governor, each of whom pledged himself to tax reform, and Governor L. E. Hall, who was inaugurated in May, pressed the matter upon the general assembly, with the result that a tax commission was created, consisting of the lieutenant governor, the speaker of the house, a number of senators and representatives, and six laymen experts, including Mr. E. H. Farrar, formerly president of the American Bar Association, and who was chairman of the first tax commission, Mr. M. H. Carver, who had been a member of the constitutional convention of 1898 and a member of the board of appraisers, Mr. O. B. Steele, who had served several terms as treasurer and auditor of the state, Professor M. A. Aldrich, of the chair of Economics of the Tulane University, and Mr. Justice O. O. Provosty of the supreme court.

The commission was in session about three weeks and recom-

mended to the general assembly, in extra session, called specially to consider same, a complete system of tax reform in the form of constitutional amendments, for the reason that no change in our taxing methods would be possible, except through amendments to the constitution, for the reason that in our present constitution, adopted in 1898, taxation was required to be equal and uniform and all property subject to taxation was liable to state and municipal taxes, and there was but one assessment for both.

The cardinal principle of the plan adopted by the tax commission was based upon two great fundamental propositions, one the segregation of the sources of revenue of state taxation, and absolute home rule as to municipal taxation.

The general assembly gave great and careful consideration to the report of the tax commission and had the benefit of the assistance of the members of the commission who were not members of the general assembly, and the amendments as finally adopted, with the changes made in the general assembly from time to time, represented in the end the further thought of the tax commission and the unanimous approval of the members thereof.

The amendments passed the general assembly by almost unanimous votes and are now before the people for adoption or rejection at the general election, to be held November 5th.

The main amendment is Act No. 12 of the extra session and carries out the two points mentioned, segregation and home rule, and I believe presents a further advance in tax reform than any system yet presented to the American people.

The sources of exclusive state revenue are (1) the taxation of corporations, individuals and others, whose business falls under the control of the railroad commission, which includes railroads, steamboats, telephone, telegraph, express, sleeping car and similar companies; street railroads; electric light and power business when connected with street railroads, if not separable, therefrom, though I am informed there are no such now in the state; heating and refrigerating plants, not including cold storage; telephone and telegraph, specially mentioned, so as to cover wireless transmission, which was not in existence

when the constitution was adopted, which created the railroad commission; dining cars, sleeping cars, oil cars, refrigerating cars, or cars used for other special purposes, ferries, canals for navigation or irrigation, and pipe lines for oils or gas.

(2) Banks of all kinds, including private banks.

(3) Insurance companies of all kinds, including bonding and surety companies, whether foreign or domestic, and all individuals carrying on the insurance business.

(4) Sugar refineries, rice mills, cotton oil mills and refineries of petroleum.

(5) Mines of sulphur, oil or other minerals, oil and gas wells, stone quarries, sand, gravel and shell pits.

(6) Tax on the transfer of stock in corporations.

(7) Tax on the organization of domestic corporations.

(8) Tax on private corporations, excluding banks and life insurance companies, fraternal insurance companies and building, loan and homestead associations, which last two are totally exempted from taxation.

(9) Automobiles, taxi-cabs and other automatically driven vehicles. Half of this tax is to go to the good roads fund, and the other half to the municipality where the vehicle operates.

(10) Tax on cotton future contracts.

(11) Tax on grain, coffee and sugar future contracts, and

(12) Inheritance tax (described as a true progressive inheritance tax).

At any time by two-thirds vote of the members of the general assembly any property segregated for purposes of state taxation may be restored in whole or in part to the municipalities of the state, which includes parishes, corresponding to counties of other states, cities, towns and villages.

The inheritance tax divides beneficiaries into five classes, the first including ascendants, descendants and surviving husband or wife; the second, brothers and sisters, nephews and nieces; the third, uncles and aunts; the fourth, all other relations; and the fifth, strangers, relations beyond the sixth degree, which embraces third cousins.

An exemption of \$5,000 is granted to a widow, \$3,500 to

children under 16 years of age, and \$2,000 to all ascendants and all other descendants.

In the second class daughters-in-law are included, with an exemption of \$100 to each, and an exemption to brothers and sisters or their descendants of \$1,000 to each root.

In the third, fourth and fifth classes the exemptions are respectively, \$500, \$250 and \$100.

The maximum rate of tax for the first class shall never exceed eight per cent., twelve per cent. for the second class, sixteen per cent. for the third class, twenty-five per cent. for the fourth class, and thirty per cent. for the fifth class. But the maximum shall never be applied unless the inheritance or legacy exceeds one-half million dollars.

The minimum rates shall be respectively one per cent., two and one-half per cent., three and three-quarters per cent., seven per cent. and thirteen per cent.

Property donated during the lifetime of a person shall be subject to the same tax as if it passed at the time of death.

A careful provision is made to prevent double taxation of inheritance, and other safe-guards are embodied in the amendment.

If this amendment is adopted, it will go into effect just as soon as the general assembly can be called into special session to make the amendment operative. Some of the provisions of the amendment, however, are not to go into effect until after the 1st of January, 1914.

All tangible property, except the operative property of the characters of business referred to under paragraph one, is left to municipal taxation, and in addition to the municipal taxes now allowed by the constitution of the state, an additional tax of six mills or so much thereof as may be necessary, may be levied to make up for the loss of revenue caused by the segregation.

The state tax is now about six mills, so that the effect of the plan will not be to increase municipal taxation.

As may be seen by the paper I read before the conference in 1909, we have always had in Louisiana a system of licenses taxation, both state and municipal, and this subject was fully

considered by the tax commission and the general assembly, with the result that the plan eliminates all state licenses, except upon callings subject to the control of the police power, such as those engaged in the sales of liquor, hotels, theatres, and the like, and upon these there may also be municipal licenses. But the municipal license for the sale of liquor shall never be less than the state license, and may be more if so ordered by the general assembly.

Municipalities may levy license on all other characters of business except on individuals engaged in trades, occupations and callings involving the personal labor or skill of the person to be taxed and not falling within the domain of the police power; and there is also exempted from license all mercantile or manufacturing business whether carried on by individuals, partnerships or corporations, where the capital stock or capital in business is less than \$5,000, excepting, of course, from the exemption, those subject to the police power, and no license of any kind shall be levied on those engaged in agricultural or horticultural pursuits. The lowest license shall be \$5.00, but beyond this it shall be graded absolutely upon the amount of business done, never exceeding one-tenth of one per cent. on the gross receipts, and no license shall be levied unless the other municipal taxes collected are not sufficient for the purposes of government.

Incorporated cities and towns, having the right to levy licenses, those liable thereto, shall not be liable to parish license, except to the amount of the excess, if any, of the latter.

Ample provision is made in the amendment to safeguard the bonds of the city of New Orleans and other sub-divisions of the state, and certain special public improvement and levee taxes shall cover all property, whether segregated or not, and under certain circumstances and for a limited time, the state shall return to such of the parishes as may be short of needed revenues, the loss, if any, they may meet with under the proposed plan.

The other amendments relate to exemptions, and if passed, will exempt from taxation, absolutely, money in hand or on deposit, the legal reserve of life insurance companies, or

ganized under the laws of this state; and for ten years, new canals for irrigation and navigation, provided same are completed within five years, at an expense of not less than \$5,000,000; and the capital, surplus and personal estate of corporations organized in the state, for the sole purpose of lending money on country property, at a rate of interest not to exceed six per cent.; and other amendments give the municipalities the right to exempt from local taxation, after special election approving same, homesteads actually occupied by the owner, not exceeding \$2,000 in value, and new industrial enterprises for a term of ten years. There is another amendment providing for the exemption of incorporated towns from all parish taxes and licenses, subject to an adjustment of expenses common to them as well as to the parish.

I herewith present copies of all the amendments, being respectively Acts 4, 6, 7, 8, 9, 10, 11 and 12 of the extra session of our general assembly of 1912 and will be very glad to send to any member of the conference desiring same a complete copy thereof.

There is, of course, considerable opposition to the amendments from many quarters. One of the strongest of which is the argument that the people will not have sufficient time within which to consider same before the election, but a vigorous campaign of education through the newspapers, public meetings and otherwise, is being inaugurated and those who want accurate information on the subject may easily acquire it, and I believe the amendments will be adopted, and if they are, I feel that our tax system will then be far in advance of any in the country and will be a model for other states to consider and follow.

Before closing, for the benefit of the members from this city, I want to say that my city of New Orleans, on August 28th, Wednesday, adopted the commission form of government by a vote of more than ten to one.

DISCUSSION—TAX REFORM IN LOUISIANA

MR. A. E. SHELDON (Nebraska): Mr. Chairman, is it in order to ask the gentleman a question. I wish to ask of Mr. Hart whether the recent tax law upon real estate agents in Louisiana was for the purpose of revenue or other purposes.

MR. HART: The tax, as stated, is for the purpose of getting revenue.

MR. SHELDON: The license tax upon real estate agents in New Orleans had no other purpose except that of revenue?

MR. HART: Not that I know. That will be obliterated if this amendment is adopted, though.

THE CHAIRMAN: This paper of Mr. Hart's was to me one of the most interesting that I have ever heard read anywhere on the subject of taxation, and it may be that there are others who would like to ask questions of Mr. Hart or would like to discuss the paper in some way. The matter is open.

MR. SHELDON: I would like to ask Mr. Hart if he has got copies of those amendments.

MR. HART: I have only one copy with me, but I should be very glad to send copies to any gentlemen who would like to have them. If the gentlemen who desire copies will kindly give their names to the secretary, he will send me their names to my office at New Orleans, and I will forward copies.

MR. HENRY W. RECTOR (Arkansas): I suggest that the question Judge Hart has been discussing is of interest to practically all of us, and if it would be in order I would like to move that the secretary be directed to incorporate into the proceedings a copy of all of the amendments pending before the people of Louisiana.

The motion was duly seconded.

THE CHAIRMAN: Moved and seconded, as you have heard, that if practicable the secretary shall insert a copy of all the amendments in the proceedings of the conference. Is there discussion?

CONSTITUTIONAL AMENDMENTS

EXTRA SESSION 1912

ACT No. 3

House Concurrent Resolution No. 3. By Mr. Locke.

Resolved, by the house of representatives, the senate concurring, That the governor is hereby authorized to convene the board of liquidation for the purpose of borrowing such amount of money as may be necessary to provide payment to the various newspapers throughout the state for the publication of the constitutional amendments adopted at this session of the general assembly.

L. E. THOMAS,

Speaker of the House of Representatives.

THOMAS C. BARRET,

Lieutenant Governor and President of the Senate.

Approved: August 24th, 1912.

L. E. HALL,

Governor of the State of Louisiana.

A true copy:

ALVIN E. HERBERT,

Secretary of State.

ACT No. 4

Senate Bill No. 2.

By Mr. Voegtla.

Joint resolution submitting to the people of the state of Louisiana an amendment to the constitution authorizing parishes and self-taxing municipalities to exempt new industrial enterprises and also improved value, inclusive of structures added to unimproved lands by immigrants into the state, who occupy said lands as homesteads from local taxation for a period not to exceed ten (10) years.

Section 1. Be it resolved by the general assembly of the state of Louisiana, two-thirds of all the members elected to each house concurring, That the following amendment to the constitution of the state of Louisiana be and the same is hereby submitted to the qualified electors of the state at the congressional election to be held on the first Tuesday after the first Monday in the month of November of the year 1912, to-wit:

Every parish and self-taxing municipality shall have the right to exempt new industrial enterprises and also the improved value added to unimproved lands, including all structures thereon, by immigrants into the state who occupy said

lands as homesteads, from local taxes for a period not to exceed ten (10) years by the vote of two-thirds in number of all its taxpayers, who are qualified electors, including resident women taxpayers, holding at least two-thirds of the property subject to local taxation within the taxing locality at a special election called for that purpose, at which special election members of partnerships, associations and heirs of estates, otherwise qualified, shall be entitled to vote their respective pro rata of the assessed valuation of said partnerships, associations or estates. Each enterprise so exempted must be situated within the limits of the exempting authority and be established after the exemption is granted.

Section 2. Be it further resolved, etc., That there shall be printed on the ballots to be used at said election the words: "For the constitutional amendment authorizing parishes and self-taxing municipalities to exempt new industrial enterprises and also improved value, inclusive of structures, added to unimproved lands by immigrants into the state who occupy said lands as homesteads, from local taxes for a period not to exceed ten (10) years," and "Against the constitutional amendment authorizing parishes and self-taxing municipalities to exempt new industrial enterprises, and also improved value, including structures, added to unimproved lands by immigrants into the state who occupy said lands as homesteads, from local taxes for a period not to exceed ten (10) years," and each elector shall indicate on his ballot as provided by the general election laws of the state whether he votes for or against the said amendment.

THOMAS C. BARRETT,
Lieutenant Governor and President of the Senate.

L. E. THOMAS,
Speaker of the House of Representatives.

Approved: August 24th, 1912.

L. E. HALL,
Governor of the State of Louisiana.

A true copy:
ALVIN E. HERBERT,
Secretary of State.

ACT No. 5

Senate Concurrent Resolution No. 2. By Mr. Voegtle.

Be it resolved by the senate of the state of Louisiana, the house of representatives concurring,

That for the purpose of aiding the general assembly in the preparation of the numerous and, in some respects, intricate

and technical statutes, necessary to put into force the amendment to the constitution remodeling and reorganizing the state's system of assessment and taxation, in the event that such amendment should be adopted by the general assembly and ratified by the people, the tax commission, provided for by Act No. 110 of the regular session of 1912, is hereby continued in existence until the adjournment of the extra session of the legislature to be called for the purpose of adopting such statutes. It shall be the duty of the tax commission to prepare all necessary bills to carry out the provisions of such constitutional amendments as shall be ratified by the people. All members of said commission shall serve without pay.

THOMAS C. BARRET,

Lieutenant Governor and President of the Senate.

L. E. THOMAS,

Speaker of the House of Representatives.

Approved: August 24th, 1912.

L. E. HALL,

Governor of the State of Louisiana.

A true copy:

ALVIN E. HERBERT,
Secretary of State.

ACT NO. 6

Senate Bill No. 3.

By Mr. Burke.

Joint resolution submitting to the people of Louisiana an amendment to the constitution exempting from taxation for twenty (20) years corporations organized to lend money on mortgages on country property at not more than six (6) per cent. interest, net to the borrower, with power to negotiate bonds and securities of local taxing districts.

Section 1. Be it resolved by the general assembly of the state of Louisiana, two-thirds of all the members elected to each house concurring, That the following amendment to the constitution of the state of Louisiana be and the same is hereby submitted to the qualified electors of the state at the congressional election to be held on the first Tuesday after the first Monday in the month of November of the year 1912, to-wit:

The capital, surplus and personal estate of every corporation hereafter organized in this state for the sole purpose of lending money on mortgages on country property situated in Louisiana at a rate of interest not to exceed six (6) per cent. net to the borrower, with power to negotiate and handle bonds and securities issued by the various parishes and local districts and

municipalities of the state of Louisiana shall be exempt from taxation for twenty (20) years from the date of the organization of each of said companies, provided that each of said companies shall have a full paid cash capital stock of not less than \$250,000.00, and provided further that in case any such corporation shall on any loan charge the borrower more than six per cent. interest, whether by way of commission, discount, or otherwise, it shall forfeit the entire exemption herein granted, and be subject to taxation from the time it makes such loan; and any such corporation handling or negotiating any securities other than those hereinabove mentioned shall incur a like forfeiture.

No such corporation shall have power to receive any money on deposit or to do a banking business of any sort, but all such corporations shall be under the control and supervision of the state bank examiner, whose duty it shall be to report to the attorney general and the state tax commission any violation of the condition of this exemption.

Section 2. Be it further resolved, etc., That there shall be printed in the ballots to be used at said election the words "For the amendment to the constitution exempting from taxation for twenty (20) years corporations organized for the sole purpose of lending money on country real estate situated in Louisiana at not more than six (6) per cent. to the borrower, with power to negotiate and handle local securities," and the words "Against the amendment to the constitution exempting from taxation for twenty (20) years corporations organized for the sole purpose of lending money on country real estate situated in Louisiana at not more than six (6) per cent. net to the borrower, with power to negotiate and handle local securities," and each elector shall indicate on his ballot, as provided by the general election laws of the state whether he votes for or against the said amendment.

THOMAS C. BARRETT,

Lieutenant Governor and President of the Senate.

L. E. THOMAS,

Speaker of the House of Representatives.

Approved: August 24th, 1912.

L. E. HALL,

Governor of the State of Louisiana.

A true copy:

ALVIN E. HERBERT,

Secretary of State.

ACT No. 7

Senate Bill No. 4.

By Mr. Favrot.

Joint resolution proposing an amendment to the constitution of the state of Louisiana relative to the exemption from taxation of money in hand or on deposit.

Section 1. Be it resolved by the general assembly of the state of Louisiana two-thirds of all the members elected to each house concurring, That the following amendment to the constitution of the state be submitted to the qualified electors of the state for their adoption or rejection at the congressional election to be held on the first Tuesday after the first Monday in the month of November, 1912, as follows:

There shall be exempt from taxation all money in hand or on deposit.

Section 2. Be it further resolved, etc., That the official ballot to be used at said election shall have printed thereon the words: "For the proposed amendment to the constitution of the state of Louisiana exempting from taxation all money in hand or on deposit," and the words "Against the proposed amendment to the constitution of the state of Louisiana exempting from taxation all money in hand or on deposit." And each elector shall indicate, as provided by the general election laws of the state, whether he votes for or against the proposed amendment.

THOMAS C. BARRET,

Lieutenant Governor and President of the Senate.

L. E. THOMAS,

Speaker of the House of Representatives.

Approved: August 24th, 1912.

L. E. HALL,

Governor of the State of Louisiana.

A true copy:

ALVIN E. HERBERT,

Secretary of State.

ACT No. 8

Senate Bill No. 5.

By Mr. Weil.

Joint resolution proposing an amendment to the constitution of the state of Louisiana, relative to authorizing parishes and municipalities by a referendum to their respective qualified electors to exempt from taxation an amount not to exceed \$2,000.00 to be deducted from the value of dwellings exclusively occupied by bona fide owners for residential purposes only and to withdraw such exemption by a similar referendum.

Section 1. Be it resolved by the general assembly of the state of Louisiana, two-thirds of the members elected to each house concurring, That the following amendment to the constitution of 1898 be submitted to the qualified electors of the state for their adoption or rejection at the congressional election to be held on the first Tuesday after the first Monday in the month of November, 1912, as follows:

That every parish or municipality, through its police jury or governing authority shall have the right to, and upon the petition of one-fourth of the qualified electors residing within its jurisdiction shall, submit to the qualified electors in said parish or municipality, at an election to be called and held for that purpose, after thirty days published notice, the question as to whether or not there shall be exempted from taxation an amount not to exceed \$2,000.00 to be deducted from the value of all buildings exclusively occupied by bona fide owners for residential purposes only; provided that any exemption may be withdrawn in the same manner in which it may be granted.

No such exemption, voted by a parish, shall operate to grant any taxpayer owning and occupying a home within a municipality the right to deduct the exempted amount from the improvement value of his property in respect to municipal taxation.

Section 2. Be it further resolved, That there shall be printed on the ballots to be used at the said election the words: "For the proposed amendment authorizing exemption of homes from taxation," and the words: "Against the proposed amendment authorizing exemption of homes from taxation," and each elector shall indicate as provided in the general election laws of the state whether he votes for or against the proposed amendment.

THOMAS C. BARRET,

Lieutenant Governor and President of the Senate.

L. E. THOMAS,

Speaker of the House of Representatives.

Approved: August 24th, 1912.

L. E. HALL,

Governor of the State of Louisiana.

A true copy:

ALVIN E. HERBERT,

Secretary of State.

ACT No. 9

Senate Bill No. 6.

By Mr. Barrow.

Joint resolution submitting to the people of Louisiana an amendment to the constitution providing for referendum to

the people of each parish to determine whether cities and incorporated towns and villages or any one or more of them shall be free from taxes and licenses levied by parochial authorities for parochial purposes, subject to the obligation to make certain contributions to the parishes.

Section 1. Be it resolved by the general assembly of the state of Louisiana, two-thirds of all the members elected to each house concurring, That the following amendment to the constitution of the state of Louisiana be and the same is hereby submitted to the qualified electors of the state at the congressional election to be held on the first Tuesday after the first Monday in the month of November of the year 1912, to-wit:

Every parish through its police jury shall have the right to submit and, upon the petition of one-fourth of the qualified electors therein shall submit to the qualified electors of said parish, at an election to be called and held for that purpose after thirty days published notice, the question of whether or not all or any one or more of the cities, incorporated towns and villages within the limits of the parishes (unless already exempt) shall be free and exempt from all taxes and licenses levied by parochial authority for parochial purposes, provided that whenever such exemption is granted, each city, incorporated town and village so exempted shall contribute to the parochial authorities its fair proportion of all parochial burdens, debts and expenses common to both. Such proportion to be adjusted between the police jury and the municipal authorities, and in case of disagreement such apportionment to be made by the state tax commission.

Section 2. Be it further resolved, etc., That there shall be printed on the ballots to be used at the said election the words "For the amendment to the constitution establishing a referendum to the people of each parish to determine whether or not cities and incorporated towns and villages shall be released from parochial taxation and licenses, subject to the condition of contributing to parish expenses," and the words "Against the amendment to the constitution establishing a referendum to the people of each parish to determine whether or not cities and incorporated towns and villages shall be released from parochial taxation and licenses, subject to the condition of contributing to parish expenses," and each elector shall indicate on his ballot, as provided by the general election laws of the state, whether he votes for or against the said amendment.

THOMAS C. BARRETT,
Lieutenant Governor and President of the Senate.

L. E. THOMAS,
Speaker of the House of Representatives.
 Approved: August 24th, 1912.

L. E. HALL,
Governor of the State of Louisiana.

A true copy:
 ALVIN E. HERBERT,
Secretary of State.

ACT No. 10

Senate Bill No. 7.

By Mr. Shaffer.

Joint resolution submitting to the people of the state of Louisiana, at the congressional election to be held in November, 1912, an amendment to the constitution of the state exempting from taxation for ten (10) years from the date of completion the capital stock, franchises and certain property of all corporations constructing, owning and operating within the state a combined system of irrigation, navigation and hydro-electric power, using fresh water streams and water-sheds, provided that each system be completed and in operation within five (5) years from January 1st, 1913, and providing further that not less than five million dollars shall have been expended in the construction of each system.

Whereas, the state of Louisiana has large areas comprising millions of acres of land that can be reclaimed and brought into cultivation by irrigation, whereby large additions will be made to the population and the assessed value of the state; and,

Whereas, canals can be constructed so as to provide irrigation, navigation and power, and it is the state's duty to encourage and promote the organization of such concerns:

Section 1. Be it resolved by the general assembly of the state of Louisiana, two-thirds of all the members elected to each house concurring, That the following amendment to the constitution be submitted to the qualified electors of the state for their adoption or rejection at the congressional election to be held on the first Tuesday after the first Monday in the month of November, 1912, as follows:

There shall be exempt from taxation for ten (10) years from the date of completion, the capital stock, franchises and property of all corporations constructing, owning and operating within the state a combined system of irrigation, navigation and hydro-electric power, using fresh water of Louisiana streams, and water-sheds, provided that each system shall be completed and in operation within five (5) years from Janu-

ary 1st, 1913, and provided further that not less than five million dollars shall have been expended in the construction of each system. No real or corporeal property shall be covered by this exemption except that which is necessarily connected with and appurtenant to each canal system and forming part thereof, nor shall this exemption extend to the assessed value that such real estate had at the time it may be acquired by the company; provided that the right of the state to regulate the diversion of its public waters from their natural beds shall not be waived by this amendment.

Section 2. Be it further resolved, etc., That the official ballot to be used at said election shall have printed thereon the words: "For the proposed amendment to the constitution of the state of Louisiana exempting from taxation for ten (10) years from the date of completion certain new canals for irrigation, navigation and power purposes to be completed within five years with a capital of not less than five million dollars," and the words: "Against the amendment to the constitution of the state of Louisiana exempting from taxation for ten (10) years from the date of completion certain new canals for irrigation, navigation and power purposes to be completed within five (5) years with a capital of not less than five million dollars." And each elector shall indicate as provided in the general election laws of the state whether he votes for or against the proposed amendment.

THOMAS C. BARRET,

Lieutenant Governor and President of the Senate.

L. E. THOMAS,

Speaker of the House of Representatives.

Approved: August 24th, 1912.

L. E. HALL,

Governor of the State of Louisiana.

A true copy:

ALVIN E. HERBERT,

Secretary of State.

ACT No. 11

Senate Bill No. 8.

By Mr. Voegtli.

Joint resolution proposing an amendment to the constitution of the state of Louisiana exempting from taxation the legal reserve of life insurance companies organized under the laws of this state.

Section 1. Be it resolved by the general assembly of the state of Louisiana, two-thirds of all the members elected to each house concurring, That the following amendment to the

constitution of the state be submitted to the qualified electors of the state for their adoption or rejection at the congressional election to be held on the first Tuesday after the first Monday in the month of November, 1912, as follows:

There shall be exempt from all taxation the legal reserve of life insurance companies organized under the laws of this state.

Section 2. Be it further resolved, etc., That the official ballot to be used at said election shall have printed thereon the words: "For the proposed amendment to the constitution of the state of Louisiana exempting from all taxation the legal reserve of life insurance companies organized under the laws of this state," and the words "Against the proposed amendment to the constitution of the state of Louisiana exempting from all taxation the legal reserve of life insurance companies organized under the laws of this state." And each elector shall indicate, as provided by the general election laws of the state, whether he votes for or against the proposed amendment.

THOMAS C. BARRET,

Lieutenant Governor and President of the Senate.

L. E. THOMAS,

Speaker of the House of Representatives.

Approved: August 24th, 1912.

L. E. HALL,

Governor of the State of Louisiana.

A true copy:

ALVIN E. HERBERT,

Secretary of State.

ACT No. 12

House Bill No. 2.

By Mr. Roberts.

Joint resolution submitting to the people of Louisiana an amendment to the constitution reorganizing and remodeling the state's system of assessment and taxation.

Section 1. Be it resolved by the general assembly of the state of Louisiana, two-thirds of all the members elected to each house concurring, That the following amendment to the constitution of the state of Louisiana be and the same is hereby submitted to the qualified electors of the state at the congressional election to be held on the first Tuesday after the first Monday, in the month of November, in the year 1912, to-wit:

Article I

1. The taxing power shall be exercised by the state and by its subdivisions for public purposes only.

2. The taxing power shall never be surrendered, suspended, given, commuted or contracted away; but where parishes or municipal corporations shall grant exemptions from parish or municipal taxes for a period not to exceed ten years from date of completion to encourage the establishment of industrial enterprises, or a similar exemption to immigrants of the value added by them to vacant property owned and occupied as a homestead, such exemptions shall not be withdrawn either as to enterprises established or substantially begun in good faith, or as to immigrants who have actually acquired and improved or in good faith begun to improve their homesteads, since the granting of the exemption. The general assembly on behalf of the state, and the governing authorities of all subdivisions of the state on behalf of such subdivision, may defer for not more than three years the collection of taxes in localities subjected to overflow or other public calamity.

3. The general assembly shall have power to classify all property for taxation, and to adopt different rules and rates for different classes, but such rules and rates shall be equal and uniform on all subjects of the same class throughout the territorial limits of the authority levying the tax. All such classifications shall be based on the characteristics of the property itself or its use, and never on persons or ownership.

4. Except in case of foreign invasion or domestic revolution, the general assembly shall not have power to levy any ad valorem property tax in excess of four per cent.; but the general assembly shall not exceed the rate of two and one-half per cent. except by a vote of two-thirds of all the members elected to each house thereof.

Article II

1. The sources of state and local revenue shall be segregated and, except as hereinafter specified, or as may be hereafter permitted by a vote of two-thirds of all the members elected to each house of the general assembly, each taxing authority shall be restricted in taxation to its own sources of revenue as herein assigned.

2. Until otherwise provided by a vote of two-thirds of all of the members elected to each house of the general assembly, the following shall be the sources of state revenue:

1st. The special taxes hereinafter provided for.

2nd. All corporations, private persons and unincorporated associations that operate any railroad falling under the jurisdiction of the railroad commission of Louisiana; street railroad; combined street railroad and electric light and power

business; heating or refrigeration plant, (not inclusive of cold storage plant); telephone line; telegraph line, whether wireless or otherwise; express line, dining car, sleeping car, oil car, refrigerating car, or cars for any other purpose operating upon railroads in this state; steamboat, motor boat, steamship, ferry, barge, and tug, or other water craft, where operated for hire, canal for transportation or irrigation, and pipe line for oil or gas. When the electric light and power business conducted in conjunction with any street railroad can be practically severed from the street railroad business for purposes of assessment then such severance shall be made by the tax commission and such electric light and power business shall not be a source of state revenue.

3rd. All banks, state and national, including savings banks, trust banks and trust companies, and all private bankers, whether individuals or partnerships, save that the real estate of all banks and bankers shall be locally assessed and taxed. The assessments of the real estate of banks and bankers shall be equalized annually by the tax commission to the basis established and in vogue in each locality where such real estate is located.

4th. All insurance companies including bonding and surety companies, foreign or domestic, and all persons and partnerships engaged in insuring persons or property, save that all the real estate and corporeal property of such companies, persons or partnerships shall be locally assessed and taxed.

5th. All sugar refineries, rice mills, cotton seed oil mills, cotton seed oil refineries and refineries of petroleum and its products. A sugar refinery is hereby defined to be a concern that buys and refines raw sugar exclusively, or a concern that buys and refines more raw sugar than the aggregate of the sugar produced by it from cane grown and purchased by it.

6th. All mines of sulphur, salt or other minerals, all oil or gas wells, all stone quarries, sand, gravel and shell pits.

3. Only the operative property of state sources of revenue shall be segregated to the state. The general assembly shall define, in a manner not inconsistent with any provisions of this amendment what the operative property of each such source is. Real estate and the improvements thereon forming part of any railroad terminal, depot or yard or warehouse or shop, acquired after July 1, 1912, even though it may form part of the operative property of any railroad, shall not be considered a source of state revenue except by constitutional amendment, unless such property had been, prior to said date, part of a railroad terminal, depot, yard, warehouse or shop.

4. All other property subject to taxation, except as herein specified, or except as may hereafter be directed by a vote of two-thirds of all the members elected to each house of the general assembly, shall be sources of local taxation.

Article III

The general assembly shall have power to levy for state purposes the following special taxes:

1. A tax on the transfer of stocks in corporations not to exceed 2 cents a share.

2. A tax on the organization of domestic corporations, organized for profit, excepting banks, fraternal insurance companies, and building and loan or homestead association, not to exceed ten dollars flat, plus not to exceed one-twentieth of one per cent. of the authorized capital stock and surplus, which tax shall be levied upon increases of capital stock as well as upon original issues.

3. A tax on private corporations, organized for profit, for the privilege of exercising corporate functions, not to exceed one-twentieth of one per cent. per annum on the outstanding capital stock and surplus, excluding banks, fraternal and life insurance companies and building and loan or homestead associations; no such tax to be less than five dollars. On foreign corporations this tax shall be levied on such proportions of their capital stock and surplus as is used in this state in intra-state business. In lieu of the franchise tax on capital and surplus, life insurance companies, foreign and domestic, not including fraternal insurance associations, shall pay annually a flat fee of \$150.00 plus \$2.50 on each \$10,000.00 of premiums collected in Louisiana during the preceding year.

4. An annual ad valorem tax on all automobiles and taxicabs, and also on all other auto-driven vehicles used for transportation of persons or freight for hire, with permission to the local government of the residence of the owner to levy an annual license tax not to exceed \$5.00. One-half of the proceeds of this state tax collected from each owner shall go to the state good roads funds; the remaining moiety of such tax shall be paid over by the state to the governing authority of the locality from which the machine is registered, to be devoted exclusively by such governing authority to the improvement of the public highways within its jurisdiction.

5. A tax on cotton future contracts, in lieu of all licenses to future brokers, of not more than fifteen nor less than ten cents on each purchase and sale of each 100 bales, to be paid on each transaction, one-half by the buyer and one-half by the seller.

6. A tax on grain, coffee, rice and sugar future contracts, in lieu of all licenses to future brokers, of not more than one and one-half per cent. nor less than one per cent. on the commissions paid on each transaction. Each unit contract as established by the rules of the respective exchanges shall be the basis of the tax, to be paid, one-half by the buyer and one-half by the seller.

7. A true, progressive inheritance tax for the benefit of the general fund, and if such a tax is levied all beneficiaries shall be divided into the following classes with the following maximum exemptions for each class:

First, ascendants, descendants, and spouses, with an exemption of \$2,000 each, except as to the widow, when the exemption shall be \$5,000, and except as to children under the age of sixteen, when the exemption shall be \$3,500 each. The widow's marital fourth shall be exempt.

Second, collateral relations of the second degree, including nephews and nieces and their descendants when the estate is divided by roots, with an exemption of \$1,000 to each root, and daughters-in-law with an exemption of \$1,000 each.

Third, collateral relations of the third degree, excluding nephews and nieces and their representatives, with an exemption of \$500 each.

Fourth, all other collateral relations within the sixth degree inclusive, with an exemption of \$250 each.

Fifth, strangers and all collateral relations beyond the sixth degree, with an exemption of \$100 each.

The maximum rate of the progressive tax shall not exceed eight per cent. for the first class, twelve per cent. for the second class, sixteen per cent. for the third class, twenty-five per cent. for the fourth class, and thirty per cent. for the fifth class, maximum rates to be attained when any inheritance, legacy, or donation exceeds a half million dollars.

And the minimum rates of such tax shall be one per cent. for the first class, two and one-half per cent. for the second class, three and three-fourths per cent. for the third class, seven per cent. for the fourth class, and thirteen per cent. for the fifth class. Whenever the rate of assessment levied against any inheritance, legacy, or other donation, when deducted from said inheritance, legacy, or other donation, would leave the beneficiary a smaller net amount than he would have received had the inheritance, legacy, or other donation fallen into the next lower class in the classification according to amount of actual cash value, then the rate of taxation shall be first calculated upon the maximum amount in said next lower

class, and the remaining amount of the inheritance, legacy, or other donation shall be taxed at the rate fixed for the higher class into which the inheritance, legacy, or other donation falls.

Duplication of inheritance taxes as between this state and other states, foreign and domestic, shall be avoided by the exemption of corporeal property belonging to a decedent of this state, and situated outside of this state, to the extent of any inheritance tax of such other state; and by the exemption of incorporeal rights belonging to non-resident descendants, such as shares of stock in Louisiana corporations, notes, bonds, and evidences of debt due by Louisiana debtors or bearing on Louisiana property, to the same extent.

This tax shall also be applied to all donations inter vivos, the donees to be divided into the same classes hereinbefore defined. All donations inter vivos to the same person within a period of five years shall be taxed as if together constituting a single donation.

Legacies and donations inter vivos to educational, religious, or charitable institutions, or to trustees for educational, religious or charitable purposes, shall be exempt from this tax, unless such donation, or legacy, shall be more than half of the disposable portion of the testator's or donor's estate, in which case the tax shall be imposed upon the entire legacy or donation and the legatees or donees shall be considered to be within the third class.

8. Such other special taxes as the general assembly by a vote of two-thirds of all the members elected to each house may from time to time prescribe.

Article IV

1. The general assembly shall have power to levy license taxes only on persons, partnerships, associations and corporations engaged in business or occupations that fall strictly under the domain of the police power, and for that purpose to classify all such businesses and occupations, and to graduate the tax within each class.

2. Local subdivisions of the state government shall have the power to levy licenses on businesses and occupations falling strictly within the domain of the police power as provided in the foregoing section for the state, save that such local licenses as may be levied on traffic in malt, vinous and alcoholic liquors shall not be less than those levied by the state nor less than those nor or hereafter to be prescribed by the general assembly as minimum local licenses.

3. Such local subdivisions, as each may determine for itself, shall also have the right to levy license taxes, classified and

graduated with due respect to equality and uniformity within each class, on all businesses and occupations not covered by section 2 of this article; save and except licenses on corporations, persons, firms and associations whose property or business is among the sources of revenue reserved to the state, and save and except licenses on individuals engaged in trades, occupations and callings involving the personal labor or skill of the person to be taxed, and not falling within the domain of the police power; and save and except corporations, associations, partnerships or individuals engaged in manufacturing or industrial pursuits whose capital stock, or capital in business, is less than five thousand dollars, and not falling within the domain of the police power; and save and except persons, firms and corporations engaged in agricultural or horticultural pursuits. In no event shall any such local license exceed one-tenth of one per cent. of the gross receipts of the licensee, provided that no license shall be less than \$5.00, nor shall the licenses provided for in this section be levied unless the general property tax of each taxing locality, when exercised to sixty per cent. of its limit, shall not be sufficient to pay the expenses of its government. Whenever a municipal license equals the license levied by the parish, only the municipal license shall be due and collectible.

Article V

1. All assessments of property for state purposes shall be made by a state tax commission, composed of three members to be elected, not later than July 1st, 1913, by a board composed of the governor, the state auditor and the state treasurer from among the qualified electors of the respective railroad commission districts, as constituted at this date, and they shall not be subject to removal except for the causes and in the manner provided for the removal of district judges.

2. The terms of the first commissioners shall be for two, four and six years. The period each is to serve shall be determined by lot. At the expiration of such terms, election shall be for the period of six years; and commissioners shall be elected and vacancies filled for any unexpired term by the qualified electors of the respective railroad commission districts at the regular congressional elections held in this state the first Tuesday after the first Monday in November every two years, and at the said congressional election held just prior to the expiration of their respective terms.

3. The commission shall maintain an office and have its domicile at Baton Rouge, and the members shall reside in

Baton Rouge and devote their time exclusively to the discharge of their duties.

4. They shall each receive a salary of five thousand dollars per annum beginning January 1, 1914, and their traveling expenses, not exceeding a maximum amount to be fixed from time to time by the general assembly, an itemized account of which shall be rendered in an annual report.

5. The chairman of the first commission shall be named by the appointing board and serve until the expiration of his term of office, and thereafter the commissions shall select its own chairman.

6. The commission and the individual members thereof shall perform such duties in respect to assessment and taxation as are herein prescribed, and such other and further duties as the general assembly may from time to time prescribe.

7. The general assembly shall provide said commission with an adequate clerical force.

8. The commission shall have power to adopt and enforce such reasonable rules, regulations, and modes of procedure, not inconsistent with law, as it may deem proper for the discharge of its duties, and to hear and determine complaints that may be made against assessments, and other of its acts, required or authorized by law.

9. The commission shall have power to summon and compel the attendance of witnesses, to swear witnesses, and to compel the production of books and papers, to take testimony under commission, and to punish for contempt, as fully as is provided by law for the district courts. The general assembly may provide other penalties for violating the orders of the commission.

10. If any person, firm, association or corporation shall be dissatisfied with the assessment made or action taken by the commission, such party may file a petition setting forth the cause of objection to such assessment or action of the commission or to either or both in a court of competent jurisdiction, at the domicile of the commission, against said commission as defendant. Either party may appeal to the supreme court of the state without regard to the amount involved; such appeals to be returnable within ten days after the date that the decision of the lower court becomes final. All such cases, both in the trial and appellate court, shall be tried summarily, and by preference over all other cases. Such cases may be tried in the court of the first instance either in chambers or at term time.

11. No bond shall be required of said commission in any case in any court, nor shall advance costs, or security for costs, be required of it.

12. It shall be the duty of the attorney general, and the various district attorneys, on proper request or direction by the commission or the governor, to aid the said commission in all legal matters, and to prosecute and defend all cases in accordance with such requests and directions. A failure on the part of such law officers, when so requested or directed to perform the duties here imposed upon them, shall constitute misfeasance in office.

Article VI

1. After January 1st, 1914, all assessments for all state purposes, except as hereinafter provided, shall be completed on or before April 1st in each year, and the taxes shall become due and payable on the first Monday in June of each year, and shall become delinquent on the first Monday in September in each year. Each parish and municipality shall have the right to fix the date for the completion of its local assessments, and the payment of its local taxes and licenses general and special, until otherwise prescribed by the general assembly. Until otherwise provided, existing laws on these subjects shall be operative. Levee district taxes and forced contributions, exclusive of produce taxes, shall be assessed and become delinquent coincidentally with parish taxes.

2. Public service corporations shall be assessed on their physical property and on their franchises separately, but the general assembly shall have power to direct the tax commission to assess the property of such corporations at a valuation including both physical property and franchises, to be determined by gross receipts, or by dividends on stocks and interest paid on bonded debt, or by any other available method.

3. Incorporated banks shall be assessed by assessing the stockholders on the book value of the stock, i. e., capital stock, surplus and undivided profits less the assessed value of real estate locally assessed and taxed, and less such further deductions of not less than five per cent. on their loans and discounts to cover bad debts and unearned interest as the general assembly may prescribe, which deduction shall be made only from their surplus and undivided profits; all taxes to be paid by the banks and charged to the stockholders.

4. Individual bankers, banking firms and unincorporated banking associations, domiciled in this state, shall be assessed on the amount of capital, surplus and undivided profits actually employed in their business, less the assessed value of real estate locally assessed and taxed, actually and exclusively used and employed in their business and less such further deduc-

tions not less than five per cent. on their loans and discounts to cover bad debts and unearned interest as the general assembly may prescribe, which deduction shall be made only from their surplus and undivided profits.

5. Foreign banks, and individual bankers, banking firms and unincorporated banking associations, domiciled out of the state but doing business in this state, shall be assessed on such proportion of their capital, surplus and undivided profits as is actually employed in this state, less the assessed value of real estate locally assessed and taxed actually and exclusively used and employed in their business in this state, and less such further deductions, not less than five per cent. on their loans and discounts, to cover bad debts and unearned interest as the general assembly may prescribe, which deductions shall be made only from their surplus and undivided profits.

6. Insurance, bonding and surety companies, and persons, firms and associations engaged in the insurance, bonding and surety business, excluding, however, fraternal insurance companies and associations, shall be taxed in a percentage of their gross premiums received upon their business done in this state, less return premiums and reinsurance in companies or associations authorized to do business in this state. The percentage aforesaid shall not exceed three per cent. for all branches of insurance, bonding and surety business, except life and industrial insurance and shall not exceed two per cent. for life and industrial insurance. The special taxes to support the office of fire marshal and fire prevention bureaus shall not be deducted from the premiums hereby authorized to be taxed. When by the laws of any other state or country any taxes, fines, penalties, licenses, fees, deposits of money or of securities, or other obligations or prohibitions are imposed on insurance, bonding or surety companies of this state doing business in such other state or country, or upon their agents therein in excess of such taxes, penalties, fees, licenses, deposits of money, or of securities, or other obligations or prohibitions imposed upon such insurance, bonding or surety companies of such other state or country, so long as such laws continue in force the same obligations and prohibitions of whatsoever kind may be imposed by the general assembly of this state upon insurance, bonding or surety companies of such other state or country doing business in this state.

7. Irrigation canals shall be taxed on a percentage not to exceed two per cent. of their gross receipts, only such real estate and the buildings and structures thereon, rights of way, machinery, tools and implements as are necessary to the opera-

tion of any canal shall be included in and covered by this tax on gross receipts. All other real estate and personal property of the owner of any canal shall be locally assessed and taxed.

8. All sugar refineries, rice mills, cotton seed oil mills, cotton seed oil refineries and refineries of petroleum and its products shall be assessed on the fair market valuation.

9. Until otherwise provided by the general assembly by a vote of two-thirds of the members elected to each house, all operating mines of sulphur, salt or other minerals, all oil or gas wells, all stone quarries, sand, gravel and shell pits shall be taxed upon a percentage of the gross value of the product at the mouth of the mine, well quarry or pit. This percentage shall not exceed five per cent. for sulphur; three per cent. for salt; two and one-half per cent. for oil and gas, and two per cent. for rock and other minerals, inclusive of gravel, sand and shells. This tax shall not apply to the product of any mines, quarries or pits or oil or gas wells, where the owner, other than public service corporations, uses the same for his personal purposes and does not sell the same or its products or manufacture the same into another product for sale. Where gravel, sand or shells are taken from the beds of public waters, or from shores not subject to private ownership, the general assembly may levy special taxes per cubic yard of material taken out and may levy a different special tax for each of said objects of taxation. The government of the United States for any purposes, and contractors engaged in the construction of any public work for the state or for the United States solely for the purposes of such public work are authorized to take free from taxation gravel, shell or sand from the beds of public waters and the public shores of the state. Every citizen of the state shall have a similar right to take such materials for his own personal use free from taxation, unless they are taken for sale. All real and personal property of the owners of such mines, wells, quarries and pits except machinery, tools and implements absolutely essential to the operation of any mine, oil or gas well, stone quarry, sand, gravel or shell pit, and except the products themselves while in the hands of the producer, shall be locally assessed and taxed.

10. All real and personal property reserved for local taxation shall be assessed at such percentage not to exceed 100 per cent. of its fair market value as each local governing authority may establish, and a lower percentage may be established for personal than for real property or for the values of improvements than for land values.

11. In all assessments of real property whether for local or

for state purposes, the value of the land shall be assessed separately from the value of the improvements; but railroad, pipe line and canal rights of way, whether held in fee or under easement, may be assessed separately from, or together with, the improvements thereon as the tax commission may deem most practicable.

12. Assessments shall be arranged geographically as far as possible either upon the roll or upon separate records and the general assembly shall pass laws providing for the printing and publication in pamphlet form of the records, showing such geographically arranged assessments, and for the sale of such pamphlets at a small price.

13. Every taxpayer shall have the right of testing the correctness of his assessment in the courts within such time as the general assembly may prescribe; and no property shall be assessed for a sum in excess of the percentage of its fair market value, as prescribed by the governing authority.

14. State licenses and special state taxes shall be due and payable at such time as the general assembly may prescribe.

Article VII

1. Every municipality shall have the right to provide, at its discretion, by ordinance of its governing authority, the officer or officers, who shall collect its taxes, and to fix the compensation to be paid such officer, or officers, and the mode of their election or appointment; and every parish shall elect by a vote of its qualified electors the officer, or officers to assess its property for taxation, the compensation of such officer or officers to be fixed by the police jury not less than ten months before the election, and not subject to change during the elected officer's incumbency. This power shall not be exercised in the parishes, nor in the parish of Orleans as to assessors, until the terms of office of the present incumbents expire. After January 1, 1914, and until the expiration of the terms of said officers, all local assessments shall be made by the assessors of each parish and the assessors of New Orleans at the present rate of compensation. All local taxes and licenses except those levied by municipalities, shall be collected by the sheriff of each parish, except the parish of Orleans, at the present rate of compensation unless such compensation shall be changed by the general assembly. After January 1, 1914, parish assessors shall be compensated by the parishes and the assessors of the parish of Orleans by the city of New Orleans. If under the referendum amendment submitted to the people at the same time this amendment is submitted pro-

viding a way to relieve municipalities from general parish taxes, subject to an obligation to contribute to certain funds, is adopted, then each municipality so relieved from such taxation, shall have the right by its governing authority, to provide for the appointment or election of its own assessor or assessors and to fix their compensation.

Article VIII

1. In order to reimburse parishes and municipalities now free from parish taxes for loss of revenue caused by the withdrawal of the sources of state revenue from parish and municipal taxation, there is hereby granted to each parish and to each such municipal corporation the right to levy an additional tax of six mills on unsegregated property.

2. In order to similarly reimburse municipalities not now free from parish taxes each parish shall levy annually for eight years after January 1, 1914, the six mill tax aforesaid, or so much thereof as may be necessary, and out of the proceeds of this tax each parish shall, under the supervision of the tax commission, compensate each such municipality within its limits for loss of revenue caused by such withdrawal. Such compensation to be made on the basis provided in the following sentence for compensation by the state to parishes. If the proceeds of such tax remaining to each parish, added to the proceeds of the levy of the one per cent. tax now permitted to be levied, after making the compensation aforesaid shall not be sufficient to repay to said parish the sum it would have received by the levy of its present one per cent. alimony tax on the basis of the assessment rolls of 1911, plus an increase of five per cent. on the amount of said tax, then the state shall compensate each parish the amount of such deficiency as fixed and reported by the tax commission.

3. Any municipality now free, or hereafter made free, from parish taxation which is not reimbursed by the levy of the additional six mill tax, the power to levy which is hereby granted to it, shall be compensated by the general assembly on the basis above provided for compensation by the state to the parishes, the amount of said compensation to be fixed by the tax commission.

4. The obligation to make the compensations herein provided for shall be mandatory on the general assembly, but no such compensations shall be made after the year 1921.

5. After the year 1921, no parish shall levy any part of such six mills within the limit of any incorporated municipality and said municipalities shall be entitled to levy and collect such six mill tax for their own account.

6. The claims of each parish and municipality for compensation shall be presented to the tax commission, which shall examine such claims and report the facts and its conclusions to the general assembly on or before the first day of each regular session.

7. In reimbursement for the state sources of revenue herein withdrawn from her assessed values, and for the joint benefit of her alimony and her existing one per cent. debt tax, the city of New Orleans, after January 1st, 1914, is hereby granted the right to levy annually and shall levy annually as long as said one per cent. debt tax is required by law to be levied, an additional tax of six mills. Out of the proceeds of this tax, there shall be paid by preference annually to the board of liquidation of the city debt, for the benefit of the one per cent. debt tax, a sum equal to that which said tax produced in the year 1912 on the segregated sources of state revenue situated within the city limits, and the balance of the proceeds of said six mill tax shall go to the alimony fund of the city.

8. The two mill ad valorem special sewerage and water tax of the city of New Orleans shall continue to be levied as long as required by law on the sources of state revenue subject to an ad valorem tax.

9. In case the referendum amendment submitted to the people at the same time this amendment is submitted providing a way to relieve municipalities from general parish taxes subject to an obligation to contribute to certain funds, is adopted, then the power to levy six mills of additional taxes is hereby granted to all parishes voting for such release to be levied on property outside of the municipalities, and the power to levy six mills of additional taxes is hereby granted to each municipality so released to be levied on the property within its corporate limits, the obligation of the state to make compensation remaining the same. Whether said amendment shall be adopted or not the power to levy the extra tax of six mills, hereby granted to all municipalities that are now exempt from parish taxes shall remain undisturbed.

10. And whether said amendment shall be adopted or not adopted, the police juries of the several parishes and the governing authorities of cities (the parish of Orleans excepted), and towns not subject to parish taxes, shall levy and collect and turn over to the duly constituted school authorities under the supervision and control of the state board of education, an amount equal to at least three-tenths of the gross amount of ad valorem taxes, which they levy and collect, provided that such amount shall never be less in any parish or municipi-

pality than the greatest amount due from such parish or municipality to the school board from the constitutional three mill school ad valorem tax collected for either the year 1911 or 1912, taking the year which yielded the highest amount. Provided further, that cities and towns that are not exempt from the payment of parish taxes shall not be required to pay this ad valorem tax if it be already imposed by the parish authorities; provided further, that this ad valorem tax shall not be imposed to the maximum whenever the school board certifies that a smaller levy will meet the needs of the schools.

11. All property the taxation of which is reserved to the state, except products of mines, of stone quarries, of sand, gravel or shell pits, and of oil or gas wells, as well as all other property, which may not be specially exempted from such taxation, shall continue to be subject to special taxes now in force, and shall be liable to such special taxes as may be imposed by local, special districts and political subdivisions in the future in accordance with law; provided that no parish or incorporated municipality shall levy a special tax for the support of any purpose which it is obligated to take care of out of its ordinary alimony, until it shall have first exhausted its ordinary taxing power, upon an assessment of at least fifty per cent. of the market value of the property subject to its taxing authority.

12. Levee district taxes and forced contributions shall continue to be levied within each district on the sources of state revenue situated in each levee district, and all levee taxes and contributions shall be collected by the sheriff of each parish, under existing law, and in New Orleans by the state tax collectors until June 30, 1916, and thereafter by the collecting officer of the city of New Orleans.

13. The taxes mentioned in the foregoing sections 8, 11 and 12, as to property reserved for state revenue, shall be based on the assessment made by the state tax commission for state purposes, equalized annually by said tax commission in each parish or municipality to the basis of assessment therein locally established.

Article IX

1. All revenues received by the state from all sources shall go into a fund called the general fund, and the general assembly shall apportion said fund among all the public purposes for which taxation is levied, setting aside, however, each year, the following:

A. For the general public school fund not less than one-fifth of the gross revenues of the state from all sources pro-

vided that such apportionment shall never be less than one million and thirty thousand dollars (\$1,030,000.00).

B. For the general engineer fund not less than four hundred thousand dollars (\$400,000.00).

C. For confederate pensions not less than the amount provided or to be provided by the constitution.

D. For the good roads fund, not less than one hundred fifty thousand dollars (\$150,000.00) plus the whole proceeds of the state's moiety of the special automobile taxicab and auto-driven vehicle tax.

E. For the public debt fund not less than five hundred twenty-five thousand dollars (\$525,000.00) or not less than six hundred and fifty thousand dollars (\$650,000.00), if the public debt amendment submitted to the people at the same time this amendment is submitted is adopted.

Article X

1. All state taxes and licenses except as hereinafter provided shall be collected by the state treasurer. The general assembly shall provide such additional clerical force in the treasurer's office as may be necessary to enable him to perform the duties herein prescribed.

2. The general assembly shall have the power to provide for special revenue agents, not to exceed three in number, to assist the treasurer in collecting all licenses, and taxes, and to assist the tax commission in gathering information for levying assessments, and shall fix the compensation and duties of such agents.

Article XI

1. All articles and parts of articles of the constitution of 1898 on the subject of assessment and taxation, and all amendments thereto on said subjects contrary to or in conflict with the provisions of this amendment be and the same are hereby repealed.

SCHEDULE

1. No part of this amendment to the constitution shall go into effect until January 1st, 1914, except that the provisions of sections one, two, five, six and seven of Article III, as to special taxes shall go into effect as soon as the general assembly shall pass laws carrying them into effect, and the provisions of sections three and four of said article shall go into effect on January 1st, 1913, provided laws carrying them into effect shall be passed on or before March 1, 1913; provided further, that laws carrying them into effect may be enacted at any later date.

2. On and after January 1st, 1914, the office of the state board of appraisers and the office of state board of equalization shall be abolished, but the present incumbents shall hold their offices at the present rate of compensation until their present terms shall expire and they shall aid the tax commission in putting the system provided for in this amendment into operation, and in that connection they shall perform such duties as the tax commission and the general assembly may prescribe.

3. The license tax authorized by the present constitution to be levied on the severance of natural resources from the soil, shall be superseded by this amendment as to the severance of minerals, oil and gas, and shall be levied only on the severance of forest products.

4. When this amendment goes into effect on January 1, 1914, the special state taxes levied for good roads and for confederate veterans as now established or as may be established, by the amendment to be submitted to the people at the same time this amendment is submitted, shall cease, and the general assembly shall make provision out of the general fund for the benefit of each of these special funds as hereinabove provided.

5. All state taxes and licenses uncollected on January 1, 1914, for 1913 and previous years, shall be collected and accounted for, under existing laws, by the sheriffs in the parishes, and the state tax collector in New Orleans, but all such collections must be completed by June 30, 1916, up to which date the state tax collector of New Orleans shall remain in office. He shall also collect all state licenses levied in the parish of Orleans until said date and the general assembly shall provide for a reduction of his clerical force to take place on June 30, 1914. After June 30, 1916, any state licenses and taxes then remaining unpaid, shall be collected by the state treasurer. The general assembly shall by appropriate legislation provide compensation on an equitable basis to the tax collectors and assessors of the several parishes for the sums they may lose after January first, 1914, to the date of the expiration of their terms of office in commissions on the state taxes that would have accrued on the sources of revenue segregated to the state, provided that the state shall be under no obligation to reimburse them in any greater amount than will guarantee to them a sum equal to the total of the commissions of their office for the years 1911 or 1912, taking the year which shows the highest amount, and the general assembly shall at its regular session in 1914 and 1916 make an estimate of the

probable amount needed for such purpose, and make appropriation to cover the same; and at the biennial sessions of 1916 and 1918 it shall make a further appropriation to cover any deficiency.

6. The amendments to the constitution submitted to the people at the same time that this amendment is submitted, proposing to exempt from taxation the objects therein specially set forth, if adopted, shall not be affected by the provisions of this amendment; nor shall this amendment be construed as affecting any property now exempt from taxation under the constitution of 1898 and its amendments.

7. The public debt amendment, submitted to the people at the same time this amendment is submitted, if adopted, shall be superseded by this amendment in respect to the mode of providing the public debt fund guaranteed by such amendment.

Prior to January 1, 1914, the general assembly shall pass proper statutes to carry this amendment into operation; and the governor shall call an extra session of that body for that purpose as soon as convenient after this amendment is adopted.

Section 2. Be it further resolved, etc., That there shall be printed on the ballots to be used at said election the words—

“For the amendment to the constitution reorganizing and remodeling the state’s system of assessment and taxation;”

And the words—

“Against the amendment to the constitution reorganizing and remodeling the state’s system of assessment and taxation.”

And each voter shall indicate on his ballot, as provided by the general election laws of the state, whether he votes for or against said amendment.

L. E. THOMAS,

Speaker of the House of Representatives.

THOMAS C. BARRET,

Lieutenant Governor and President of the Senate.

Approved: August 24th, 1912.

L. E. HALL,

Governor of the State of Louisiana.

A true copy:

ALVIN E. HERBERT,

Secretary of State.

THE NORTH DAKOTA STATE TAX ASSOCIATION

BY JAMES E. BOYLE, PH. D.

Professor of Economics and Political Science, University of
North Dakota; President of North Dakota State
Tax Association 1909-1913

The North Dakota State Tax Association, organized in 1909, is the direct product of the National Tax Association. The state association has now held four successful meetings, and has been a factor in securing certain tangible tax reforms. As a party interested in the state association from the start, I may say that the real credit for this organization so far as my part is concerned, is due to the inspiration received at the 1907 and 1908 meetings of the National Tax Association in the cities of Columbus, Ohio, and Toronto, Canada, respectively. Ninety copies of the proceedings of the Columbus meeting were scattered about the state, thanks to the donations of some public-spirited men of the state. This helped stir up interest in the question of taxation, as well as in the National Tax Association.

In reality, the credit belongs to the man back of it all, our president, Allen Ripley Foote, to whom I would like to say one word in tribute. A great many here do not know this man, who, in a very quiet way, has been working behind the scenes, spending his time and his money organizing the National Tax Association. I believe he is a Napoleon in his way, and has done a great work, and has sought no credit, and is getting very little credit for it. I, for one, would like to pay a tribute of respect to this truly great man. (Applause.)

GENESIS OF STATE ASSOCIATION

The Call.—I submitted the idea of forming a State Tax Association to Mr. Arthur G. Lewis, auditor of Cass county, North Dakota. He was heartily in favor of such a step. A call was accordingly issued, through two or three leading newspapers in each county of the state, asking all citizens interested in the tax question, to convene in Fargo on June 23, 1909. The call was signed by the governor, by prominent members of the state legislature, and by about twenty other representative citizens.

The First Meeting.—But the first meeting was a great disappointment. Only a handful were present—enough merely to make the speeches on the program and to elect officers and adopt a constitution. But the thing was launched, and we made up our minds to make it go. It is apparent that the plan of the New York call is the proper one, namely, make the invitation definite and specific. We were firing in the air.

The Constitution.—The following constitution was adopted, and is still in force unchanged:

ARTICLE 1.—NAME

The name of this organization shall be The North Dakota State Tax Association.

ARTICLE 2.—OBJECTS

(a) The encouragement of the study of state and local taxation in North Dakota.

(b) The promotion of legislative and administrative reforms in our taxing system.

(c) The publication of papers and other materials relating to revenue and taxation.

(d) The holding of meetings for conference and discussion of such questions.

ARTICLE 3.—MEMBERSHIP

(a) All persons and institutions such as libraries, clubs, schools, etc., interested in studying our present revenue and taxation systems, shall be eligible to membership in this association.

(b) The annual membership fee shall be two dollars (\$2.00).

(c) The annual joint-membership fee for this association and for the International Tax Association shall be three dollars and a half (\$3.50).

(d) All members of the International Tax Association living in this state, with dues paid prior to the adoption of this constitution shall be considered as charter members of this association with all dues paid for the current year.

ARTICLE 4.—OFFICERS

The officers shall consist of a president, a vice president, and a secretary-treasurer.

ARTICLE 5.—STANDING COMMITTEES

The committees of this association shall consist of an executive committee, a publication committee, a membership committee, and such other committees as may from time to time be required.

The executive committee shall consist of the officers of the organization and two elected members.

The publication committee shall consist of five persons appointed by the president.

The membership committee shall consist of the officers of the organization and one person in each county appointed by the president.

The officers and members of committees shall hold their positions for one year, or until their successors are elected.

ARTICLE 6.—DUTIES OF OFFICERS AND COMMITTEES

The duties of the officers shall be such as usually pertain to such positions. The executive committee shall have charge of the general interests of the association. It shall have power to determine the time and place of meetings.

The publication committee shall have charge of the publications of the association.

The membership committee shall seek to increase the association's membership in every county.

ARTICLE 7.—AMENDMENTS

Amendments, when approved by the executive committee, may be adopted by a majority vote of members present at any meeting of the association.

Our Aim.—There were two chief things we had in mind as our goal, when the association was organized: (1) the immediate thing was to secure a permanent state tax commis-

sion. (2) The ultimate aim, of course, was to bring about, so far as possible, and absolutely good and efficient tax system for North Dakota.

Our Methods.—Our constitution mentions the holding of meetings and the publication of papers as part of our program. This of course was the bulk of our work. We have a committee to look after important state conventions (such as State Bar Association, State Bankers' Association, County Auditors' Association, and dozens of others) and to see to it that at least one speaker, whether a member of this association or not, is on the program to discuss taxation. In this way we secured the discussion of tax questions very widely, and also the adoption by several associations, of resolutions favoring the creation of a state tax commission. I am sure this helped create public sentiment and crystallize it in favor of a tax commission. Finally the two political parties both adopted planks favoring a tax commission. And in various other ways we had articles on tax questions appear in leading newspapers. In fact our state press was ever ready to handle a live discussion of the tax problem.

Once a year we have held a public meeting or conference. Four of these have been held, and all, except the first, have been well attended. The second one was at Grand Forks, the session lasting two days.

The programs of the second, third and fourth meetings are here given in full:

PROGRAM

MEETING OF THE NORTH DAKOTA STATE TAX ASSOCIATION GRAND FORKS, NORTH DAKOTA, JANUARY 28 AND 29, 1910

First Session, Friday, January 28, 10:30 A. M.

1. Call to order.
2. Address of Welcome—Hon. Bardi G. Skulason, Grand Forks.
3. Some Neglected Aspects of Federal and State Taxation. Dean A. A. Bruce, University Law School, Grand Forks.
4. Authorization and appointment of committees.

Second Session, Friday, January 28, 2:30 P. M.

5. The Work of the State Board of Equalization—Hon. D. K. Brightbill, State Auditor, Bismarck.

6. The Sticking Point in Taxation—President Frank L. McVey, State University, Grand Forks.

7. Separation of Sources of State and Local Revenue—Sveinbjorn Johnson, State Legislative Reference Librarian, Bismarck.

Discussion, led by Don McDonald, County Treasurer, Grand Forks county.

8. Taxation of Mortgages—H. A. Bronson, Member of American Bar Association, Grand Forks.

9. General discussion.

Banquet 6 to 8. Banquet to members, speakers, and invited guests. Election of officers.

Third Session, Friday, January 28, 8 P. M.

10. Good Roads and Taxation—I. A. Acker, Hillsboro.

11. General discussion.

Fourth Session, Saturday, January 29, 10:30 A. M.

12. Life Insurance and Taxation—Wm. J. Graham, Vice-President of Northwestern National Life Insurance Co. Minneapolis, author of book, "Romance of Life Insurance."

Discussion by Dr. M. Jacobstein, Department of Economics, State University.

Fifth Session, Saturday, January 29, 2:30 P. M.

13. Methods of Real Estate Assessment Both Rural and Urban—Arthur G. Lewis, Auditor of Cass county, Fargo.

14. Shall we Amend our State Constitution?—R. A. Nestos, Member of State Bar Association, Minot.

15. Shall we Amend our State Constitution?—A. W. Fowler, State's Attorney, Cass county, Fargo.

Discussion led by Sim Miller, City Assessor, Grand Forks, and L. E. Birdzell, University Law School.

16. General discussion.

17. Reports of committees, adoption of resolutions, etc.

18. Adjournment.

PROGRAM

THIRD ANNUAL MEETING, BISMARCK, JANUARY 25 AND 26, 1911

Wednesday Morning, January 25.

10:00 Opening of Conference.

Address of Welcome by Mayor (President of Board of City Commissioners).

Registration of members and payment of dues.

Wednesday Afternoon.

2:00 Address, Governor Burke, "Taxation."

Address, Honorable P. D. Norton, Secretary of State, "Some Inequalities of our Present Method of Taxation."

Address, I. A. Acker, Assistant Legislative Reference Librarian, "Uniform Municipal Accounting."

Discussion of above address, W. W. Felson.

Thursday Morning, January 26.

10:00 Address, Dr. Frank L. McVey, President of State University, "The Work of a State Tax Commission."

Address, Honorable W. C. Gilbreath, Commissioner of Agriculture and Labor, "A Practical View."

Address, A. G. Lewis, Ex-Auditor Cass County, "Delinquent Personal Property Taxes."

Thursday Afternoon.

2:00 Address, Dr. James E. Boyle, Professor of Economics and Political Science, State University, "Publication of Assessment Lists."

Address, W. W. Felson, Auditor Pembina County, "Collection of Personal Property Taxes."

Reports of committees.

Election of officers.

Adoption of resolutions.

Adjournment.

PROGRAM

FOURTH ANNUAL MEETING, FARGO, JANUARY, 30 AND 31, 1912

Tuesday Morning, January 30.

10:00 Informal gathering of Conference. Registration, authorization and appointment of committees.

Tuesday Afternoon.

2:00 Address of Welcome, Hon. V. R. Lovell, Mayor of Fargo.

Address, Prof. L. E. Birdzell, State University, "North Dakota's New Tax Commission Law."

Address, George E. Wallace, Wahpeton, "Outline of a Model Inheritance Tax Law for North Dakota."

Report, R. B. Blakemore, Fargo, "The Richmond, Virginia, Conference of the National Tax Association."

Tuesday Evening.

8:00 Address, Dr. T. S. Adams, Member of the Wisconsin Tax Commission, "The Place of the Income Tax in a State's Tax System."

Discussion of the above paper.

Address, I. A. Acker, Legislative Reference Librarian, "Foote's Formula for Assessing Railroads."

Wednesday Morning, January 31.

10:00 Symposium, "The Preparation of Appropriation Bills," by Hon. J. G. Gunderson, Aneta; Hon. Robert Norheim, Alexander; Hon. W. B. DeNault, Jamestown.

Discussion of the above subject.

Address, W. W. Felson, Auditor Pembina County, "County Accounting As It Is, and As It Should Be."

Wednesday Afternoon.

2:00 Address, Prof. N. C. MacDonald, State Rural School Inspector, "Improving Our Rural Schools."

Address, Prof. Arland D. Weeks, Agricultural College, "Support of Schools in North Dakota."

Address, R. B. Blakemore, Fargo, "An Analysis of the Single Tax Doctrine."

Address, R. A. Burnett, Cummings, "Taxation of Pullman Cars in North Dakota."

Wednesday Evening.

8:00 Symposium continued, "The Preparation of Appropriation Bills," by Hon. Wesley C. McDowell, Marion; Hon. S. N. Putnam, New Rockford; Hon. J. E. Williams, Turtle Lake.

Discussion of the above subjects.

Treasurer's report.

Committee reports.

Election of officers.

Adjournment.

Only a few of the papers thus far read at our meetings have been printed. A few are issued in pamphlet form, and may be had from the secretary. We have been financially unable to print a complete set of proceedings, as we had hoped to do. Like the National Tax Association, we find the financial problem a hard one to solve.

Our Accomplishments.—In 1911 North Dakota created a permanent state tax commission of three men. While we do not claim all the credit for this important step, yet we do feel that we had some share in bringing about this important administrative reform. A state tax commission of three very able men is now in office.

A second reform we now see started, namely a constitutional amendment permitting the classification of property for purposes of taxation. This proposed amendment has now passed one legislature. It remains for it to pass the next session and

then go before the people. The first step is the hardest, and that is safely taken.

But, chiefest of all, we have the people over the state fairly well interested in the whole question of taxation and in a state of mind where they are willing to see not only important but radical changes introduced.

The state tax association now has about one hundred paying members. Many of these have a joint membership in the national and state associations.

Our greatest weakness is the financial one—how secure adequate income to make our work more effective.

STATE CONFERENCES ON TAXATION

BY EDWARD L. HEYDECKER

Assistant Tax Commissioner, City of New York, Secretary
State Conferences on Taxation of New York

We have held a second annual state conference on taxation in New York and have unanimously provided for the calling of the third annual conference at Binghamton in January next. It is too early as yet to refer to an annual state conference as an established institution, but there is every indication from the numbers in attendance, the interest shown, and the good which has resulted, that the state conference on taxation in New York will continue to be an annual affair and a factor of considerable importance in tax legislation in that state.

The second conference was held at Buffalo on January 9, 10 and 11, 1912. The invitation to the conference followed the same lines as the invitation to the first conference at Utica, and was in all respects a very close copy of the conferences of the National Tax Association. Invitations to appoint one or more delegates were extended to the state officials whose work is in any way connected with the assessment or collection of taxes, to the county treasurers, the county boards of supervisors, to the mayors of cities, the controllers or city treasurers, the city boards of assessors, to the presidents of villages, and the village assessors and to the town assessors. In like manner invitations were extended to the universities of the state, chambers of commerce, boards of trade and all organizations state-wide in character and interested in tax matters. Care was taken in the invitation to explain that a group of delegates, no matter what their size, representing any official board, municipality or organization, should have but one vote. In this way the conference was carefully preserved against being over-weighted by delegates from places in the vicinity, or by delegates from the richer and

more powerful cities or counties which could afford to send large delegations and pay their expenses.

One hundred and eighty-nine delegates and visitors were registered at the conference, a large increase over the attendance at the first conference at Utica. All parts of the state were represented. The committee on resolutions of twenty-seven members was made up of representatives of the first, second and third class cities, the counties, the villages and towns, universities and boards of trade, and was thoroughly representative of the general body of delegates.

The papers presented dealt chiefly with problems of local assessment work and with the confusion and inequality resulting from the multiplicity of taxing and collecting districts. They called forth a lively and interesting discussion and resulted in an interchange of practical experience by assessing officials, that was most helpful and which, in many instances, furnished the solution to problems which had been confronting individual assessors.

The round table session was as fully attended as the round table of this association, and the searching questions, the quick answer and the lively earnest debate were as much in evidence there as here.

The conference appointed three delegates as a committee on legislation to draft and present bills to the legislature to carry out the recommendations embodied in the resolutions. The committee drafted and caused to be introduced a series of bills. Two of these were passed and became law. Several of the bills dealt with the difficult problem of consolidating the work of assessment for various taxes in the hands of one set of assessors, and consolidating collection of taxes for the different taxing districts of a town in the hands of one collector.

It is difficult for anyone outside of the state of New York to appreciate that outside of the cities there are three different boards of assessors, assessing the same property, and three different collectors, collecting taxes assessed against the same property. Yet this is a fact. Each town (i. e. township) has its board of assessors, each village within the town has its board of assessors and each school district has a separate board

of assessors. There is a town collector who collects the taxes for the state, county and town purposes, a village collector who collects for village purposes and a school district collector who collects the school money. The assessments fall at different times of the year and the collections are at varying dates, but never on the same dates. The bills prepared by the committee to remedy this situation were not pressed for passage for two reasons. First: the shortness of the session, and second, the feeling that the changes involved were so great that sufficient time had not been given for discussion and consideration.

Copies of these bills were sent to all who attended the state tax conferences and to the officials whose duties would be affected by the proposed changes and their co-operation in amending and revising these bills has been invited.

To amend the tax law in New York is not an easy task. The method pursued has been, first, to discuss the need of a change at our state conference and to ascertain the views of those present by a resolution dealing with the principle or theory of the proposed change, but without any attempt to decide the details; second, to have bills drafted by the representatives of the conference; third, to have the bills introduced and printed; fourth, to send printed copies of the bills throughout the state to all who will be affected by them; fifth, to have a hearing before the committee of the legislature to which the bill has been referred and on such hearing to accept and embody in the bill all suggested amendments which tend to improve the bill; and finally to unite in one general request to the legislature to pass the perfected bill.

It is believed that the bills for the consolidation of the work of assessment and collection will have been sufficiently studied and improved by the next conference to be in shape to present and press for passage in the next legislature.

The work of the first conference at Utica in 1911 produced many changes in the tax law, changes which naturally became operative in 1912. Among these changes was a complete revision of the form of the assessment roll. In the cities the separate assessments of land and improvements was required; in the rural districts real property was required to be put in one

part of the roll and personalty in another part. Furthermore, the description of each separately assessed parcel of realty was required with sufficient accuracy to be readily identified.

These changes met with some opposition from the old assessors. This was quite natural for it is no longer possible to make an assessment by copying the old roll. A new roll and an actual assessment, be it good or bad, must be made.

According to the best information at this date, one result of the change in the form of the roll will be a substantial increase in the total of assessed values, particularly in the cities.

The spirit of the state conference is discussion and co-operation. One of the most gratifying results of these conferences has been a movement to bring together the assessors within each county for similar discussion and co-operation. One county, Chemung, has already progressed to the point where it has organized an association of assessors, comprising all the city and town assessors and having among its objects the unification of assessment methods and equalization of values throughout the county. We may hope that Chemung will not long be the only county with such an association and when we have a similar organization in each county, as adjuncts to the state conference, and the state conference in its turn, aided by our national conference, we may with some reasonable confidence, look forward to a steady, persistent revision of the New York tax law, in the direction of efficient administration and accurate and scientific assessment of property, to the great gain of the taxpayer and the community.

Connecticut

In Connecticut a conference of assessors and boards of review was called by Tax Commissioner Corbin on March 12th, 1912. It was confined to two sessions held on one day. Town assessors and members of town boards of review were invited and the attendance was large and was representative of all parts of the state, but the invitations were limited to officials, and there were no representatives of business organizations or of taxpayers generally. The papers read were by local officials and dealt with the practical questions of tax administra-

tion. They presented many valuable points and the discussion following each paper showed the keen interest of all present in such matters. The writer was invited and spoke on the subject of "Tax Maps." A map prepared in accordance with the suggestions of the paper was exhibited and will be filled in as to form boundaries and areas by the assessor of the town of Simsbury and shown at the next conference. A committee of eight with Commissioner Corbin ex officio, was appointed to call another meeting, prepare a program and draft legislation for needed changes in the law.

Following this meeting on April 20th, was the meeting of the tax collectors' association of Connecticut, at which there were papers which, while dealing chiefly with the collection of taxes, nevertheless in many points, touched upon the assessment for taxes, and also contained suggestions for new legislation.

With these two meetings, it would seem that Connecticut tax officials intend each year to study the theories of taxation, the problems of administration and to seek changes that will improve the law. As Connecticut is one of the New England states, under the town government plan, it will be interesting to follow the effect of the action of such a conference upon the next legislature. To a far greater extent than in many other states, the local officials have a freedom of action and an absence of set forms, so that they can, in many instances, carry out suggestions for improvement and change without the necessity of seeking a change in the text of the statute.

DISCUSSION—STATE CONFERENCES

MR. W. D. T. TREFRY (Massachusetts): Mr. Chairman and Gentlemen—I did not come prepared to make any specific report of the cities or of that meeting. It was called in rather an informal way, and was intended to include the tax officials of the New England states. Notices were sent out and a program prepared which had for its permanent object the comparison of the different methods—the practical methods of the working laws of the different New England states. It brought out a great deal of discussion, various discussion, and the comparison of the different methods was of great benefit to the members who were present. It was of sufficient interest to every one to result in the formation of an association, and I trust that the next meeting of the association will be as well attended as the last meeting and will be productive of as good results. Whether it will be permanent or not I presume remains yet to be determined. But the practical value of all such organizations and of all such meetings lies in the fact that officials have the opportunity of coming together and comparing at first hand the methods of administration of diverse laws of the different states upon practically the same subject, or the administration of laws upon different subjects. If that is done in the correct spirit much good must come from it, and I know that much good did come from it in our case. As to any specific result of course I am not prepared at the present time to report. We did pass some resolutions which went upon record, but that record I have not here with me today.

THE CHAIRMAN: We have with us a member of the New Jersey special tax commission, Mr. McAllister, and we would be glad to hear from him about the meeting of the New Jersey boards of assessors.

MR. ALBERT R. MCALLISTER (New Jersey): Members of the association. As many of you know, we have a system of equalization in which we make the county the unit. The county

board of supervisors is called the county board of taxation, and each county has three members and a secretary. It is the duty of the county board to supervise the work of the various assessors in their respective districts. In past years there has been more or less opposition by taxpayers and others, principally others, to the county boards, the claim being that the office was a needless expense, inasmuch as the county boards superseded or succeeded the boards of appeal, and did no better work. The board of appeal consisted of men who practically gave their time—just a nominal salary, and the present boards are paid salaries ranging from \$1,000 to \$3,000 per man, depending upon the size of the county.

During the last four or five years, many members have been elected to the respective branches of the legislature upon a platform, that they would vote to repeal the county boards of taxation. In some instances, men that otherwise would not have been there, and who should not have been there, have succeeded in being elected. Fortunately, they have been unable to have such a bill passed, for the reason that no substitute was proposed, and the average man wants to know where he is going to stable his horse before he destroys his stable.

During the present year, there was appointed a tax commission to investigate the methods of taxation throughout the state. Lately the county boards have endeavored not only to make their positions more secure, but have endeavored to make their work more nearly what it should be. A few weeks since the members of the several county boards of taxation met at the capital and organized a state organization of county tax boards. The purposes of this organization are to equalize the values in the several taxing districts each with the other, as it has been found that in adjoining taxing districts where lands are the same that tax values have differed as much as thirty-three and one third per cent. It is also proposed to have frequent conferences of the members of the several boards in order that proper standards of value shall be used by the county boards in each of said several taxing districts.

A legislative committee has been appointed, whose duties will be to take up with the legislature such measures as the

county boards deem essential to a proper equalization of taxes in the entire state. They formed this association on their own initiative, and they are intelligently taking up the many matters that enter into a broad equalization of state taxes. Much of the opposition to the county boards has been overcome, because many boards have accomplished very good work, while on the other hand, there is some counties still much work to be done. The system of county boards of taxation is a good one, but the results obtained are necessarily dependent upon the calibre of the appointees.

The present commission will be taken up specially by another member, as I understand, on a later day, and, therefore, the work that we have done, I will not attempt to go into. I thank you all for the opportunity of saying these few words. (Applause.)

MR. A. S. DUDLEY (Wisconsin): May I ask the gentleman who has just taken his seat whether, in New Jersey, there are twenty-one separate assessing boards whose action is final? That is, is there no board of equalization that has jurisdiction over the twenty-one county boards.

MR. McALLISTER: In answer to that question I might say that there is a state board of taxation, and appeals are taken from the assessors' valuation to the county board, and from the county board to the state board.

MR. DUDLEY: Isn't the assessment of the state board, the equalization of the state board, the final assessment figure for the state?

MR. McALLISTER: Yes; of course the matters can be taken up to the supreme court.

MR. DUDLEY: Has your state a board of equalization, or is there another state board that also assesses certain corporate property, as railroad property?

MR. McALLISTER: Yes, state board of assessors.

MR. CHARLES HANSEL (New Jersey): In New Jersey the state board of equalization has only authority over the equalization of general property. The state board of assessors has the valuation and assessment of the railroad property and

other public utilities; but there is no equalization—if you will excuse me for correcting you (referring to Mr. McAllister)—between the state board of equalization and the state board of assessors. The state board of assessors, however, assesses all of the real estate outside of the 100-foot strip, such as in the terminals. I might say that the real estate in the terminals in Jersey City alone is 27 per cent. of the total value of all of the railroad property in the state, so that will illustrate the value of the so-called second class, or the land or other real estate outside of the 100-foot strip. The taxing district in the county receives all of the tax assessed by the state board of assessors on that property of the railroads outside of the 100-foot strip.

MR. DAN M. LINK (Indiana): Mr. Chairman, because it seems pertinent to the subject and because I believe it ought to be said here, let me add that the Indiana system is the simplest and most effective method of co-operation among assessing officers that I believe could be devised. I have been much interested in the discussion of these gentlemen of the efforts of the assessing officers in the various states to get together, so there might be a common understanding among them, but Indiana has that figured out by a law supplemented by custom and by rule of the state board of tax commissioners.

Our assessing system is very simple. The unit is the township, with the township assessor. There is a county assessor who has general supervision over the township assessor, and a state board of tax commissioners, which board has general supervision over the county and the township assessors. So that, progressing from the township assessor, there is the county assessor, who is intermediary between the township assessor and the state board of tax commissioners, and the state board of tax commissioners, and we have all the persons who are interested in the assessment of property in the state. Under our statute, the state board of tax commissioners must call into session at the capital or some other place named by the state board, which has always been so far the state capital, all the county assessors of the state, and it is an official meeting, for attending which they get paid. That session lasts three days.

All the county assessors of the state bring to that meeting all the questions which have arisen during the preceding year and upon which they desire information, or upon which they have information, and during those three days every matter concerning the assessment is practically threshed out.

Immediately after that there are district meetings held, and a certain number of counties, anywhere from five to twelve, according to the convenience of location, are grouped together at a central point, and a meeting of the county assessors, the county auditors, county treasurers and others who are interested in the taxing question, is held; and there the property of the counties, the land and the personal property assessments are discussed, so there may be no assessment, as one gentleman has said, of a property upon one side of a county line at a thirty-three and one third per cent. higher rate than upon the other side of the line. Under our system that is an impossibility. Immediately after that, under the law, it is the duty of the county assessor to visit every township in his county and go over that township with the township assessor. In addition to that, under the law, some member of the state board of tax commissioners must visit every county in the state and call into session the county assessor and every township assessor in the county. So that you see by this interlocking system that we have, the state board of tax commissioners is brought into intimate relationship with every assessing officer in the state, so that we not only know personally and intimately every county assessor but know personally nearly every township assessor in the state. So we have none of the troubles that these gentlemen have spoken about, about these inadequate assessments, except as the individual judgment varies and as the individual desire to favor constituents varies. So far as lack of information is concerned, none of that exists in our state because it is impossible under the system we have devised and which is provided for by statute.

MR. BENJAMIN E. HALL (New York): May I ask the commissioner from Indiana in what manner the town or township assessors are chosen, and for what period, and what their compensation is?

MR. DAN M. LINK (Indiana): In answer to the gentleman's question, Mr. Chairman, I would say that the township assessors are chosen by the voters of their township once in four years by election. The county assessors are elected by the respective counties, and the tax commissioners are appointed by the governor for terms of four years.

THE CHAIRMAN: Mr. Pleydell of the New York Tax Reform Association.

MR. ARTHUR C. PLEYDELL (New Jersey): You have heard of meetings of tax officials trying to improve their own work; and of other meetings like these of county assessors in California, that have progressed to the point where they read papers devoted more or less to general principles and ideas about taxation; you have heard of state conferences modeled upon these conferences, with a certain amount of official representation from various sections and organizations; you have heard of a tax association in North Dakota which holds annual meetings a little different from the state conferences, but nevertheless depending upon the annual meeting and the addresses there for the results which it has measurably achieved, and very creditably for the time it has been at work. It may be of interest if I tell you something of the work of another association which does none of those things, but has some results to its credit.

The New York Tax Reform Association has attained its majority, being now in its twenty-second year of active work. It was organized in 1891. The association does not hold public meetings with addresses, and very seldom meetings of members, the latter being due largely to local conditions in New York, where people have so many diverse interests and live so scattered, that they much prefer to be canvassed by mail. The association, however, has been working during these twenty-two years with its office open and a staff in charge for six days in the week and fifty-two weeks in the year.

The services of the association, in giving information to public officials, students and to any one who has a legitimate public interest in the inquiry, are absolutely free of charge. We conduct no litigation, and we cannot conduct any philosoph-

ical research. We have inquiries all the time. For example, from college debating societies who ask for literature and to whom we immediately send pamphlets on all sides of the question; and requests for information from special commissions and officials throughout the United States. We have had inquiries from Hawaii, and Arizona, and Maine within two days, all of which we could answer with appropriate pamphlets. Probably every special tax commission in a number of years has asked us for the New York laws and for what information we could send, and we have always been very glad to give it. We have the largest stock of literature covering most of the phases of taxation that there is for public distribution to-day, in addition to the filed information of which we can only furnish transcripts.

The work of the association is entirely non-partisan. It takes no part whatever in elections. It does not even comment adversely at the time of election and very seldom at any other time, upon legislators who oppose measures which the association favors, or those who favor legislation which the association opposes. What legislation we get is secured simply by going to the legislature and presenting the reasons therefor. We depend entirely upon the arguments which we have to present. If they are not adequate we try to get better ones.

Our association does not have a large membership, and when it comes to interesting persons in legislation we must depend upon the co-operation of other organizations. Frequently we have inaugurated a movement for some change in the law which has subsequently been taken up, and very properly so, by other organizations more especially interested, who have pushed the matter to final completion.

In the years we have been at work we have secured many changes in the law. For example, the abolishment of imprisonment for non-payment of taxes; the separate assessment of land and buildings in New York city which is on quite a different plan from that usually in vogue; the mortgage recording tax, which was proposed by our association three years before finally enacted through the efforts of the real estate interests, who took our bill as a basis. We also proposed the pres-

ent tax upon banks at a flat rate, taken up and pushed through by the bankers' association. The secured debt law of last year is another measure which we introduced seven years ago. The model inheritance tax law was the work of the national association, but taken up by our association, recommended in our annual report, and pushed through under our auspices, with the co-operation of many other organizations. Those are some of the measures we have succeeded in getting through, in addition to a number of administrative changes; and we also have succeeded in preventing a great deal of legislation that we think would have been undesirable, and often with the assent and approval of those who had proposed it when the exact effect was pointed out to them. Whether we favor a particular bill or not, we help to put it in the best shape, believing if we are going to have a bad law it is better to have it just as workable as we can get it rather than having it as bad as possible.

The fact that our association is by far the oldest tax organization and the only one continuously at work has attracted attention in other states, and our field of work has broadened very much. For the last ten years especially we have been doing a great deal of national work.

When Professor Boyle spoke of the amendment to the Minnesota constitution it occurred to me to make this talk, because Mr. Lawson Purdy, then secretary of the New York Tax Reform Association, went by invitation to Minnesota in 1902 and spoke in favor of the amendment that was substantially adopted in 1906. Mr. Purdy visited Minnesota again in 1907 and when he was asked what the next steps should be, suggested a tax commission and a mortgage recording tax law. These measures were enacted that year. The Minnesota amendment being afterwards taken up by other states, we may claim a share of the credit to our former secretary for having helped in this movement for more freedom in the improvement of tax systems in many of the states of the union.

When the national tax conference was first proposed we were called upon to furnish the ground work by putting our mailing lists and other information at the disposal of those inter-

ested, and Mr. Purdy not then being our secretary but head of the New York city tax department was asked to help, and we helped organize the first national conference.

We also helped organize the first New York State Conference, at Utica, and what is perhaps more important if not so interesting, we raised the money to pay for it, and carried it through successfully. The second conference managed pretty well to run itself, except it did leave us a little printing deficit, which was cheerfully accepted; and we will do what we can to aid in the success of subsequent conferences.

THE STUDY OF TAXATION IN AMERICAN COLLEGES

BY EDWIN S. TODD

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It may be well to preface the material I shall offer by an explanation as to how a paper of this peculiar character should happen to come before the convention. I may say that at the close of the Richmond conference there was some correspondence between Mr. Foote and myself relative to the closer association of the colleges and such a conference as this in the study of taxation. Mr. Foote, and the executive committee as well, became greatly interested in the formulation of an outline for the study of taxation that would lead to uniform study, not only in colleges but in little groups, and villages and towns as well. As a result of this, I had during the winter, the privilege of outlining the study to be presented; and it was then sent all over the country, not only to members of the executive committee, but to others, and finally it was sent to Professor Seligman, who made some few suggestions which were incorporated in the outline, and thus it was made ready for publication. A few weeks ago, however, President Foote wrote to me and asked if I would answer three questions, and present my answers to the convention for its use, and these three questions I found very difficult to answer, especially in the few moments devoted to them. They were these:

(I) What is the present situation with regard to the study of public finance in American colleges. (II) Why should taxation be studied in every college. (III) What can the National Tax Association do towards stimulating a greater interest in the study.

I. THE PRESENT SITUATION

The present situation with regard to the study of taxation can be discussed very briefly. An examination of the course bulletins of about two hundred colleges shows that the majority of colleges make no special study of taxation. This unfortunate situation is owing to two causes: first, that it is only within the last few years that problems of taxation have assumed peculiar importance in this country; and secondly, because the majority of our colleges still cling to the old notion that college studies must be "cultural."

All of the large privately endowed institutions such as Columbia and Harvard and the majority of state institutions afford an opportunity for special study. Not more than one out of ten of the small colleges have special courses in the subject. The time given to special courses is very generally three hours a week for a semester. In only a few of the larger colleges is a whole year devoted to the study. While it is gratifying to note that an increasing number of colleges are giving a semester to taxation yet experience has shown that three hours a week for a half year are inadequate for a complete survey of theory and an application of theory to actual conditions in city, county and state. The ideal, it seems to me, would be five hours a week for the semester or three hours a week for the year.

The subject of taxation does receive incidental treatment in the general course in elementary economics but the treatment must necessarily be very meager even in those colleges which devote an entire year to general economics. In a great many colleges however, the general survey covers only a semester so that the student in such schools scarcely gets a glimpse of the problems of taxation.

As to the number of students who are making a special study of taxation I can give no information. In those schools offering special courses, probably one third of the boys in each college class study public finance. Judging from local observation I should say that the proportion is increasing. Very few girls have any desire to study the subject.

II. REASONS FOR THE STUDY OF TAXATION PROBLEMS

Should taxation be studied in college? The answer depends on our point of view. If we are among those who demand that the college and the high school shall take an account of stock in order to determine, whether in the light of present day demands and needs, the institution is a "going concern" or paying dividends on the investment,—then we shall answer in the affirmative. If, on the other hand, we belong to the group which declares that the college has no direct connection with the practical activities of life, we are bound to answer in the negative. The answer to the question involves also a discussion of the ultimate end and purpose of education. The older view, still prevalent, is that the end of education is the inculcation of the cultural and this "culture" is to be obtained largely through the old traditional study of the classics. (Let it be clearly understood that I have not come before you to fight the study of the classics for they have now and will always have their place in the scheme of education.) But what is meant by "culture." Webster defines it as the "state of being cultivated," but this does not get us very far. He does say farther that it means "enlightenment and discipline acquired by mental and moral training." But what studies have the peculiar merit of possessing cultural values? Absolutely none. One may obtain "discipline, refinement, enlightenment" just as well by the close survey of one's immediate backyard environment as from a study of the Aristotelian environment. I am more and more of the opinion that this thing that we call "culture" depends far more on the man than on any particular subject studied. Lincoln got far more real culture from one or two old books than a great proportion of our present day students from six years' browsing in the languages and ancient literature.

The adherents of the newer view of education hold it to be a fact true for every age of the world that the end and aim of educational forces can never be realized until the citizen is brought into a position where he is made to appreciate, to sympathize with, and to adapt himself to his environment. The

ultimate purpose is, and in fact always has been, to make the citizen an efficient part of his environment; and all subjects studied must in the final analysis be tested by their ability to realize this end.

If we accept this ideal of education then we must take the next step in our analysis and declare that the subjects necessary to realize this end change from age to age. Educators and even practical men of affairs often lose sight of this important concept and hence we have in a new age the educational ideas and methods of a past time, and this is the reason why so often we find educational methods and ideas out of tune with the age. I would make two points emphatic,—first, that the ideals of society change from time to time, and secondly, that the education which does not conform to the ideal of the age is doomed to utter failure.

One of the most patent facts to the student of social history is that ideas are not unchanging but are constantly being modified in order to conform with advancing ideals. Every age has had a predominant mark, a basic ideal, an ideal exactly fitted to that age and to no other,—an ideal about which have clustered all notions of theology, politics, and education. An illustration or two will make my point more clear. Roughly speaking, the two centuries immediately following the discovery of America may be characterized by the efforts of democracy to find expression in the field of theology and religion. Theology was the center of all thought, and educational thought naturally conformed to the prevailing ideal. The schools in order to meet the needs of the age made use of the Latin and the Greek not for their cultural but for their utilitarian value.

During the next two centuries ending in this country with the Civil War and Reconstruction period, the central ideal about which centered every social force was the political. Democracy was concerned with a gigantic struggle for freedom in this realm. The prevailing discussions therefore centered about the nature of sovereignty and the state. In our country, the central questions which involved the whole edu-

cational system were those such as whether our constitution instituted a state or a congeries of loosely united states. Aside from the languages, education was concerned with political philosophy, and studies of a political nature were introduced entirely on account of their utilitarian character.

But what is the ideal of our age? We are undoubtedly in the midst of a transition era leading to an age whose ideal can already be clearly seen. Roughly speaking, beginning with the eighties in our country we began to enter a period where democracy has its work in finding expression in the field of the economic. The economic ideal has already profoundly colored and modified every phase of our life. The fact that this is even yet a transition era accounts for the seeming chaos in present day politics, theology and education; for, in each field, despite the efforts of the ultra conservatives, there is the beginning of a more or less conscious conformity to the new ideal.

Unfortunately, many of our schools and colleges have failed as yet to note that the social ideal has changed, so that they occupy a rather anomalous position in this new age. For the most part they still require as the prerequisite of the bachelor's degree a little knowledge of everything but the present age. The student is required to know something of the ancient world through the media of its language and history, something of the Politics of Aristotle or the Republic of Plato, something of the physical world,—but he is not *absolutely required* to know a thing of the seething, pulsating age in which he lives. He must know something of every age but his own yet there has never been a time when preparation for rational and complete and successful living depended in greater degree on the correct and scientific notions of present day economic and political forces.

If now, education is the process by which the citizen becomes acquainted with, sympathizes with and adapts himself to his environment, and if the ideal of this new age is the economic,—what sort of studies have the peculiar merit of bringing about conformity and of making it possible for the citizen

to serve his age most efficiently? Can there be any doubt as to the answer? Is not economics conjoined with the other social sciences the very heart and center of all college and high school study today? No one should be permitted to graduate from an American college or high school without some knowledge at least of the chief studies that will make him acquainted with the economic ideal and the economic problems of the age. And the one great problem as we all know, common to men in all professions, and in every line of business,—a problem intimately connected with every phase of the problems of production and the equitable distribution of wealth, is that of taxation. If the end and aim of all education is efficiency and service to the community, then we have found the chief reason why every college should have a course in taxation.

Such a course is necessary and desirable for many reasons. I should cite the following as the chief reasons:

(1) By the inculcation of the fundamental principles underlying public finance, the citizen will be able to discriminate between the true and the false so that he will not be lead astray by much of the popular newspaper and magazine "economics" of the day.

(2) Such a study will enable the citizen to get a correct viewpoint and to be willing to search for further evidence before he assumes any permanent attitude toward economic questions.

(3) The citizen will thereby be able to take a stand above the petty dictates of partisan politics and to be unaffected by party slogans when purely economic questions are concerned.

(4) Such a study will stimulate an interest in matters affecting the citizen's local environment.

(5) It will slowly develop in every community a group of leaders that should be a powerful force in the formation of correct and sane public opinion in matters of public finance.

In my estimation the college through the development of such courses could do much more than this. The college could thereby regain its place of leadership in the community by becoming a natural community center not only for the study

of taxation problems but for the study of every social and economic problem. The college could do much in this way toward educating the community in matters of scientific taxation. The college could create little centers within its sphere of influence for the study of taxation problems. The college could furnish an instructor who might visit these groups at stated intervals, furnish outlines for study, book lists, subjects for debate, etc. There is no reason why every college cannot do on a small scale what Wisconsin for example, is doing along these lines.

III. CAN THE NATIONAL TAX ASSOCIATION DO ANYTHING TO STIMULATE AN INTEREST IN THE SPECIAL STUDY OF TAXATION?

It can exert some influence in this direction. A few tentative suggestions are offered.

First.—A circular might be prepared by the Association with four objects in view: (1) To set forth the aims and purposes of the National Tax Association. (2) Showing the need for the special study of taxation. (3) Showing the opportunities afforded for the closer and more active co-operation of the Association and the colleges in the study of the practical problems of taxation. (4) Urging the formation of special courses in taxation, or if this is impossible the formation of a group in the general economics course for the voluntary study and discussion of such problems.

Second.—The Association should publish such an outline as that presented today for the study of taxation. By means of such an outline the Association could bring about an approach to uniformity in the treatment of taxation problems.

Third.—The Association should provide some plan by which one or two prizes would be given for the best study of taxation made through the use of the outline. Such studies should be printed and distributed where they will do the most good.

Fourth.—The conference reports should be edited, revised and arranged so as to give in a single volume a discussion in logical order, of the whole field of state and local taxation.

Such a book would not only be useful for college students but for the citizen as well who desires to study the subject. Something of this sort must be done if the material already published in previous volumes is to be made most serviceable.

If these suggestions are not deemed practicable at present, I hope at least that there has been indicated very clearly a field, now entirely neglected, in which the National Tax Association may do successful pioneer work.

AN OUTLINE FOR THE STUDY OF STATE AND LOCAL TAXATION

**Prepared at the Request of the Executive Committee of the
National Tax Association**

By EDWIN S. TODD

Miami University, Oxford, Ohio

PREFACE

This outline for the study of local taxation has been prepared at the request of the executive committee of the National Tax Association. It is intended primarily as a guide for the student in making a practical application of his study of taxation theory through direct and independent observations of the phenomena of taxation in his home county, city and commonwealth.

Through the use of this outline it is hoped that the student may be brought into closer and more vital relations with his local political and economic environment; that he may thereby have a better understanding and appreciation of local fiscal problems; and that, through such an understanding and appreciation, he may become a powerful force in bringing into existence a thoroughly scientific and uniform system of taxation.

For the sake of clearness and precision the study has been divided into two parts,—one dealing with the state as a whole and the other dealing with the local jurisdictions within the commonwealth.

The writer is greatly indebted to the members of the executive committee of the National Tax Association but especially to President Foote and to Professor Seligman for valuable criticisms and helpful suggestions.

GENERAL DIRECTIONS FOR THE STUDENT

1. This outline is intended for use in the study of taxation in your state, county, village or city,—or the equivalent jurisdictions.

2. Use the first part for the state as a unit and the second for the local jurisdictions.

3. Apply the first part in detail to the study of the taxation system in your state. In addition, select at least one other state for a comparative study especially of the taxation of corporations, incomes and inheritances.

4. Use the second part first in the study of the county or largest local jurisdiction in your state; then in the study of the minor subdivisions; then to your home village or city. If you live in a rural district or in a village, make a separate study of the chief municipality in your county. These reports should be kept separate.

5. So far as possible make the study comparative, i. e., your home county with others, etc.

6. Let it be clearly understood that this outline is not exhaustive but merely suggestive. Make an effort to arrive at some independent conclusions aside from those made in answer to outlined questions and suggestions.

7. Apply constantly the theories and principles studied in your reading to actual conditions found in your investigations.

A WORKING BIBLIOGRAPHY

1. State reports: The reports of the following officers and bodies are generally available: special and permanent tax commissions; special legislative investigating committees; railway commission; state auditor, treasurer, or secretary of state; insurance commission; public service commission; state statistics, etc.

2. Local reports. Reports of the various city officers and bodies.

3. State constitutions and codes of law.

4. United States reports. Census reports; reports on wealth, debt, and taxation; senate and house documents; congressional record; reports of commissioner of corporations.

5. Reports of New York Tax Reform Association.

6. Reports of the annual conference of the National Tax Association.

7. Economic magazines such as: The Quarterly Journal of Economics; Journal of Political Economy; The Annals; Political Science Quarterly, etc.

8. Although not subscribing to all the theories and proposals therein, I would suggest the following books as being helpful and suggestive:

Adams, Science of Finance.

Agger, The Budget in the American Commonwealth.

Bullock, Select Readings in Public Finance.

Bastable, Public Finance.

Cooley, Taxation.

Goodnow, Cases in Taxation.

Daniels, Public Finance.

Fillebrown, A. B. C. of Taxation.

Kennan, Income Tax.

Plehn, Public Finance.

Rosewater, Special Assessments.

Seligman, Income Tax, Essays in Taxation, Incidence of Taxation, Progressive Taxation.

West, The Inheritance Tax.

PART ONE: THE STATE AS A UNIT

SECTION I. EXPENDITURES

- I. Total expenditures for all purposes showing increases or decreases for selected years.
- II. Objects of expenditures.
 1. Prepare tables showing total and detailed expenditures for various purposes for selected years.
 2. If possible, compare with other states.

III. The Budget of the state.

1. By whom prepared.
2. Manner of preparation.
3. Method of voting the budget.
4. Criticisms and suggestions for reform.

SECTION II. REVENUES.**I. Total revenues from all sources for selected years.****II. If possible, compare with other states.****III. Sources of revenue.**

1. Enumerate the sources of revenue in order of their fiscal importance.
2. Prepare tables showing amounts produced by these separate sources for selected years.

IV. Machinery for assessing and levying taxes.

1. How does the state constitution limit the powers of the executive or legislative officers in: (a) fixing tax rates, (b) in fixing different rates for different classes of property?
2. Extent of powers exercised by the legislative body in determining tax rates.
3. Powers of state officers, state tax commissions, and other boards and state officials in evaluating property and fixing tax rates.

V. The Administration of Tax Laws.

1. Make a critical and detailed analysis of the control exercised by state officers and tax commissions in the administration of tax laws.
2. Compare the tax commission of your state with those of other states as to manner of appointment, term of office, efficiency.

VI. Detailed study of the separate sources of revenue.

Note: In your study of each of the following sources of revenue give special attention to the following points:

- a. Nature of the tax.
- b. Methods of assessment and control.
- c. Merits of the tax from the standpoint of revenue and administration.

- d. Compare with the ideal outlined in your study of theory.
 - e. The incidence of the tax. Merits of the tax from the standpoint of its economic effect.
 - f. Compare with at least one other state.
1. The land (or real estate tax).

Note: (a) In addition to the above suggestions note particularly the relation between the state and the local jurisdictions in the matter of the land tax and revenues from land.

(b) Also note any efforts made or making to substitute for state purposes other forms of taxation in place of the land or real estate tax.

2. Forests, mines, etc.
3. The personal property tax. (Note particularly points "c" "d," and "e," above.)
4. Corporate taxation. (In addition to the above suggestions note the method used in your state in making a classification of corporations and make a detailed analysis of each.)
5. Inheritance taxes.
6. Income taxes.
7. Liquor taxes.
8. Licenses, fees, etc.
9. Other sources of revenue for purely state purposes.

SECTION III. THE RELATION OF THE STATE TO OTHER STATES IN MATTERS OF TAXATION

- I. In your study thus far have you found that the system of state taxation comes into conflict with the system in other states so as to result in double taxation?
- II. To what extent does your state system of taxation conform to the ideal of those seeking to bring about interstate comity in taxation??
- III. Note any effort now being made in your state to bring about interstate comity.

SECTION IV. RELATION OF THE STATE TO LOCAL JURISDICTIONS

- I. Is there any clearcut division between the revenues of your state and those of the local jurisdictions?
- II. How nearly does this division approach the ideal?
- III. Is any attempt being made to realize a scientific system of revenue division in your state?

SECTION V. THE COMMONWEALTH DEBT

- I. Nature of the present constitutional provisions regarding limitations, purposes, etc., of the state debt.
- II. The present debt.
 1. Amount.
 2. Origin.
 3. Provision for repayment.

SECTION VI. THE STATE IN INDUSTRY

- I. Nature of state industries.
- II. Success of these industries from the fiscal standpoint.

PART TWO: THE LOCAL JURISDICTIONS OF THE STATE

SECTION I. EXPENDITURES

- I. Expenditures of the various jurisdictions. (Throughout this outline the term "jurisdiction" refers to city, village, township, county or other equivalent subdivision of the state.)
- II. Compare with other neighboring jurisdictions.
- III. The budget.
 1. Formation of budget in city, county, etc.
 2. Manner of voting the budget.
 3. Character of those controlling the making or voting the budget.
 4. Suggestions for reform.
- IV. General criticism of expenditures.
 1. Is the revenue efficiently expended?

2. Is the administration of local finance conducted in a businesslike manner?
3. Is there any local or other control of accounting?
4. Other suggestions and criticisms.

SECTION II. REVENUES

I. Revenues of the various jurisdictions.

1. Total revenues realized from all sources of taxation, licenses, fees, etc.
2. Compare with former selected years.
3. Compare with similar jurisdictions.
4. Compare the revenue from each source for selected years.

II. Machinery for assessing and levying taxes.

1. Give a detailed account of the work of the officers in each jurisdiction who assess and levy the tax, methods of tax levy, etc.
2. Limitations on the tax levy.
3. Character of officers controlling the assessment and levy.
4. Defects in the system.

III. Property Assessments.

A. Appraisement of real estate.

1. What does "real estate" include?
2. Is there a separation of land and improvements on land?
3. Time and method of appraisement.
4. Appraisers: How selected, character, efficiency, etc.
5. Basis of appraisement, e. g., sale value.
6. Is all or only a portion of the valuation taxed?
7. Exemptions of land and improvements.
8. Rate of assessment,—how determined.
9. Forest land, mines, etc.,—how assessed.
10. Equalization.

- a. Character, jurisdiction, functions, efficiency, etc., of such boards.

11. Compare rates with former years.
12. Compare assessed valuation of land and improvements with the actual amount realized from the tax and compare with former years.
13. Complaints as to the injustice of this method of assessment. Ground for such complaint. Could a better system be devised?
14. How closely does the local system of evaluating land and improvements compare with the best theory of the day?
15. Collection of the tax. Method of collection, etc.

B. Personal property.

1. What constitutes personalty? Is any effort made to distinguish tangible from intangible property for taxation purposes?
2. Time and method of assessment of each class of personalty.
3. Rate of assessment.
4. Exemptions.
5. Prepare tables showing amount derived from personalty by classes.
6. If possible, compare assessed valuation of personalty with real valuation and compare with former years.
7. Is it possible to estimate the amount of tangible and intangible personalty that escapes taxation?
8. Compare statistics of realty and personalty as to assessed valuation, real value, amount realized, etc.

C. Conclusions relative to the merits of land and personal property taxes.

1. Which bears the greater burden of taxation,—realty or personalty?
2. Is it possible to get a full valuation of personalty?

3. Does the city or rural district pay the greater relative amount of the tax?
4. Evidence that the tax does not fall on the persons intended to pay it.
5. Has the experience of your state shown: (a) the uselessness of the attempt to reach personalty by means of the old general property tax or (b) the success of the more scientific methods of classifying property for taxation purposes?
6. In what ways is double taxation made effective: (a) By levying two or more taxes on the same subject by the same jurisdiction? (b) By taxes levied on the same subject by two or more jurisdictions?
7. Other conclusions which bear out the truth of theories and principles studied.
8. Suggestions for reform.

IV. Other Forms of Taxation.

1. Does the local jurisdiction derive any revenue from public service corporations? In what way? Is this a large amount relative to the income from other sources? Is there a local or state assessment and levy? How is the tax collected?
2. Taxes on business. Form of tax; method of levy, etc.
3. Licenses. Is there a large amount derived from this source? Enumerate a few of the chief license ordinances.
4. Fees. Amount derived. Nature of these fees.
5. Special assessments. Method of assessment; purpose, revenue derived.

SECTION III. MUNICIPAL INDUSTRIES

- I. Enumerate the industries owned and controlled wholly or in part by the municipality, e. g. the waterworks.
- II. Success of such industries from the fiscal standpoint.

SECTION IV. LOCAL DEBTS

- I. Limitations on local debt by state action.
- II. The present debt. Amount; origin; provision for repayment.
 - 1. Is this department of local financing efficiently administered?

SECTION V. GENERAL CONCLUSIONS

- I. General summary, conclusions, criticisms, suggestions for reform, etc.

THIRD SESSION

TUESDAY EVENING, SEPTEMBER 3, 1912

CHAIRMAN, LAWSON PURDY, NEW YORK

PROGRAM

1. TAXATION FOR STATE PURPOSES IN PENNSYLVANIA

**N. E. Hause, former Chief Clerk Department of Auditor
General, Harrisburg, Pa.**

(read by Arthur C. Pleydell)

**2. A PROGRESS REPORT ON CORPORATION TAXATION IN CALIFOR-
NIA.**

**A. B. Nye, State Controller and Chairman of State Board
of Equalization, Sacramento, Cal.**

(read by H. E. Chandler)

3. THE RELATION OF TAXATION TO SERVICE RATES.

N. T. Guernsey, Attorney at Law, Des Moines, Iowa.

4. DISCUSSION.

TAXATION FOR STATE PURPOSES IN PENNSYLVANIA

By N. E. HAUSE

Former Chief Clerk, Department of Auditor General, Harrisburg, Pa.

(Read by Mr. Arthur C. Pleydell)

Our president has asked me to prepare a paper on "State Taxation in Pennsylvania." I have taken the liberty to amend the title somewhat by making it to read "Taxation for State Purposes in Pennsylvania." It is hardly necessary for me to suggest the impossibility of anything like a complete discussion of this subject within the limits allowed for a paper at this conference, so we shall have to be content with a mere mention of some of the minor subjects, while those of more importance are gone into at greater length.

Pennsylvania's financial year ends on November 30th, and it will be interesting to note the receipts for 1911, the latest available figures. The gross income, from all sources, including every dollar that came into the state treasury that year, was \$32,146,978.23, the highest in the history of the state. Just by way of comparison, the gross receipts for 1901, ten years prior, were \$17,727,432.46.

At the risk of adding dry figures, and because a paper of this nature would be incomplete without some figures showing the amounts received from the various sources, the itemized receipts are furnished. They are as follows:

Capital stock	\$11,519,576.51
Personal property	4,745,700.68
Corporate loans	2,079,523.93
Corporate gross receipts.....	1,646,666.65
Collateral inheritances	1,587,665.32

Foreign insurance premiums.....	1,475,835.42
Restitution money	1,300,000.00
Bank stock	1,045,408.32
Bonus on charters.....	922,495.72
Retail mercantile licenses.....	816,618.69
Wholesale liquor licenses.....	749,907.45
Retail liquor licenses.....	647,770.30
Automobile licenses	428,302.00
Brewers' licenses	321,805.75
Wholesale mercantile licenses....	315,448.08
Fees of office.....	305,936.98
County loans	296,676.59
State highway construction.....	237,221.98
Interest on state deposits.....	217,284.48
Writs, wills, deeds, etc.	209,274.21
Gross premiums (domestic).....	147,731.94
Municipal loans	130,655.35
U. S. government.....	128,076.45
Billiard and pool licenses.....	115,015.81
Oleomargarine licenses	88,288.87
Brokers' licenses	65,954.41
Bottlers' licenses	55,295.63
Bank examinations	53,920.88
Distillers' licenses	51,108.00
Notaries public commissions.....	49,825.00
Net income	48,423.17
Theater and circus licenses.....	30,410.00
Fertilizer licenses	27,905.00
Eating house licenses.....	26,587.21
Accrued interest	26,104.31
Bankers and brokers.....	24,827.79
Escheats	23,682.94
Refunded cash	23,069.81
Penalties	22,709.41
Building and loan associations...	14,494.50
Auctioneers' licenses	12,260.58
Sale of state property.....	11,812.90
Milk fines	11,763.92
Game fines	11,376.02
Annuity	10,000.00
Pure food fines.....	7,821.78
Forestry reservation sundries....	6,234.94
Peddlers' licenses	5,326.02
Forest fire expenses (refund)....	5,204.44
Notaries public	4,722.25

Oleomargarine fines	3,975.51
Egg fines	3,150.00
State police fines.....	3,009.65
Enrollment of stallions.....	2,991.00
Fishing licenses	2,586.10
Fishing fines	2,459.61
Automobile fines	2,202.00
Meat fines	1,985.00
Sales of land.....	1,957.47
Feeding stuff fines.....	1,643.40
Non-alcoholic drink fines.....	1,601.50
County penalties	1,392.23
County interest	1,301.65
Vinegar fines	950.00
Hunters' licenses	701.50
Ice cream fines.....	686.74
Renovated butter fines.....	600.00
Sabbath breaking fines.....	544.40
Lard fines	484.54
Linseed oil fines.....	450.00
Fertilizer fines	425.00
Care of insane.....	375.43
Court martial fines.....	354.21
Factory laws fines.....	240.00
Cup vending	134.50
Cheese fines	100.00
Insurance (refund)	80.00
Public road fines.....	62.50
Live stock fines.....	50.00
Pamphlet laws	40.38
Conscience money	21.20

It will be noted that the above list includes many items that are not taxes, several that are fines and penalties, and a number that are merely refunds of amounts which the state had heretofore paid out. For its regular income the state depends largely upon its tax receipts from corporations, personal property tax and the various licenses. The several sources of income will be discussed in their order, beginning with the

TAX ON CORPORATIONS

It is almost impossible to state exactly what revenue Pennsylvania receives, directly and indirectly, from its corporations.

Taking the tax on capital stock, loans, gross receipts and gross premiums, and the bonus on charters, we have a total of \$18,931,758, or nearly \$19,000,000.00. In addition to this sum, however, corporations pay largely under other divisions, such as wholesale and retail mercantile licenses, oleo licenses, distillers licenses, theater and circus licenses, etc., probably to the extent of half a million more. With possibly one exception, no state receives a greater income from its corporations than Pennsylvania does. The best revenue producer the state has is its

TAX ON CAPITAL STOCK OF CORPORATIONS

Under various acts, the state of Pennsylvania has taxed the capital stock of corporations since 1840 and joint stock associations since 1843. Interests in limited partnerships are regarded the same as stock in a corporation, and liable for tax generally. For many years the capital stock of companies was made taxable at the rate of a half mill for each one per centum of dividends declared or paid. If there were no dividends, or if less than six per centum were paid, the tax was computed at the rate of three mills on the appraised value of the stock. While the history of the various changes made in the taxing act from 1840 to the time of the enactment of the act under which this tax is collected would be very interesting, we are concerned particularly with the present act, which became a law on June 1, 1889. Sections 20 and 21 of this act were afterward amended, the former by the act of 1891 and the latter by the act of 1893. Their importance entitles them to recital and they are given in full.

“Section 4. That hereafter, except in the case of banks, savings institutions and foreign insurance companies, it shall be the duty of the president, chairman or treasurer of every corporation having capital stock, every joint-stock association and limited partnership whatsoever, now or hereafter organized or incorporated by or under any law of this commonwealth, and of every corporation, joint-stock association and limited partnership whatsoever now or hereafter incorporated or organized by or under the laws of any other state or territory of the

United States, or by the United States, or by any foreign government and doing business in and liable to taxation within this commonwealth, or having capital or property employed or used in this commonwealth, by or in the name of any limited partnership, joint-stock association, company or corporation whatsoever, association or associations, co-partnership or co-partnerships, person or persons, or in any other manner, to make a report in writing to the auditor general in the month of November, one thousand eight hundred and ninety-two, and annually thereafter, stating specifically :

First. Total authorized capital stock.

Second. Total authorized number of shares.

Third. Number of shares of stock issued.

Fourth. Par value of each share.

Fifth. Amount paid into the treasury on each share.

Sixth. Amount of capital paid in.

Seventh. Amount of capital on which dividend was declared.

Eighth. Date of each dividend declared during said year ended with the first Monday of November.

Ninth. Rate per centum of each dividend declared.

Tenth. Amount of each dividend during the year ended with the first Monday in said month.

Eleventh. Gross earnings during the year.

Twelfth. Net earnings during said year.

Thirteenth. Amount of surplus.

Fourteenth. Amount of profit added to sinking fund during said year.

Fifteenth. Highest price of sales of stock between the first and fifteenth days of November aforesaid.

Sixteenth. Highest price of sales of stock during the year aforesaid.

Seventeenth. Average price of sales of stock during the year; and in every case any two of the following named officers of such corporation, limited partnership or joint-stock association, namely: The president, chairman, secretary and treasurer, after being duly sworn or affirmed to do and perform the same with fidelity and according to the best of their knowledge and belief, shall, between the first and fifteenth day of No-

vember of each year, estimate and appraise the capital stock of the said company at its actual value in cash, not less however than the average price which said stock sold for during said year, and not less than the price or value indicated or measured by net earnings or by the amount of profit made and either declared in dividends or carried into surplus or sinking fund, and when the same shall have been so truly estimated and appraised they shall forthwith forward to the auditor general a certificate thereof accompanied with a copy of the said oath or affirmation, signed by them and attested by a magistrate or other persons duly qualified to administer the same: Provided, That if the auditor general and state treasurer, or either of them, is not satisfied with the appraisement and valuation so made and returned, they are hereby authorized and empowered to make a valuation thereof based upon the facts contained in the report herein required, or upon any information within their possession or that shall come into their possession, and to settle an account on the valuation so made by them for the taxes, penalties and interest due the commonwealth thereon with a right to the company dissatisfied with any settlement so made against it to appeal therefrom in the manner now provided by law; and in the event of the neglect or refusal of the officer of any corporation, company, joint-stock association or limited partnership, for a period of sixty days to make the report and appraisement to the auditor general as herein provided, it shall be the duty of the auditor general and state treasurer to estimate a valuation of the capital stock of such defaulting corporation, company, joint-stock association or limited partnership, and settle an account for taxes, penalties and interest thereon, from which settlement there shall be no right of appeal.

“Section 21. That every corporation, joint-stock association, limited partnership and company whatsoever from which a report is required under the twentieth section hereof, shall be subject to and pay into the treasury of the commonwealth annually a tax at the rate of five mills upon each dollar of the actual value of its whole capital stock of all kinds, including common, special and preferred, as ascertained in the manner

prescribed in said twentieth section, and it shall be the duty of the treasurer or other officers having charge of any such corporation, joint-stock association or limited partnership upon which a tax is imposed by this section to transmit the amount of said tax to the treasury of the commonwealth within thirty days from the date of settlement of the account by the auditor general and state treasurer: Provided, That for the purposes of this act interests in limited partnerships or joint-stock associations shall be deemed to be capital stock and taxable accordingly: Provided also, That corporations, limited partnerships and joint-stock associations liable to tax on capital stock under this section shall not be required to make any report or pay any further tax on the mortgages, bonds and other securities owned by them in their own right but corporations, limited partnerships and joint-stock associations holding such securities as trustees, executors, administrators, guardians or in any other manner shall return and pay the tax imposed by this act upon all securities so held by them as in the case of individuals: And provided further, That the provisions of this section shall not apply to the taxation of so much of the capital stock of corporations, limited partnerships or joint-stock associations organized for manufacturing purposes, which is invested in and actually and exclusively employed in carrying on manufacturing within the state, except companies engaged in the brewing or distilling of spirits or malt liquors and such as enjoy and exercise the right of eminent domain, but every manufacturing corporation, limited partnership or joint-stock association shall pay the state tax of five mills herein provided upon such proportion of its capital stock, if any, as may be invested in any property or business not strictly incident or appurtenant to its manufacturing business in addition to the local taxes assessed upon its property in the districts where located, it being the object of this proviso to relieve from state taxation only so much of the capital stock as is invested purely in the manufacturing plant and business: Provided further, In case of fire or marine insurance companies, the tax imposed by this section shall be at the rate of three mills on each dollar of the actual value of the whole capital stock."

The duty of making reports, under this act, is imposed upon all corporations, limited partnerships and joint-stock associations, except as to banks, savings institutions and foreign insurance companies. An exception must also be noted in favor of trust companies, which are taxed under the act of 1907. The act applies also to all foreign companies doing business in Pennsylvania or having capital or property employed or used in the state. Blanks for reports are furnished by the auditor general, who is given the necessary authority to prepare them in such form as he may deem best calculated to insure true returns of all taxable property. For convenience and to secure uniformity, several kinds of forms are used, by the different classes of companies: Manufacturing; transportation; brick, clay, slate; coal and coke; land; limited partnerships, and miscellaneous, the last including oil, gas, water, bridge, turnpike, sewer, brewing, distilling, merchandising and other classes of companies. Failure to file reports within a specified time subjects the offender to a heavy penalty, although this is not always imposed, or the payment of it insisted upon. Intentional failure for three successive years is made a misdemeanor, the officers being liable to fine or imprisonment, but this extreme penalty has never been imposed.

The information furnished in these reports, which forms the basis for taxation, is perused and compared by the taxing officials, the auditor general and state treasurer, or some one from their departments appointed to this work, and a settlement or statement of the amount of tax due, is agreed upon, a certified copy of this settlement sheet, under seal, being sent to the corporation or its representative. Payment of the amount due must be made within sixty days after the settlement is made, else interest at the rate of twelve per cent. per annum must be paid in addition to the tax. If the officers of a company regard the tax as unfair, unjust or excessive, they may petition for a resettlement, alleging any additional facts or reasons, or calling attention to facts in the report which they believe were not given proper consideration. The company also has the right of appeal, which right must be exercised within sixty days after notice of the settlement, and the ad-

justment of the tax is thereafter a matter for the courts. What has been said here about reports, settlements and appeals applies generally to the various kinds of corporate tax.

All corporations and companies are required to pay a tax at the rate of five mills on the actual value of their whole capital stock, and the method of ascertaining this value is prescribed in section 20, already quoted. This does not apply, however, to so much of the capital stock of corporations organized for manufacturing purposes, which is actually and exclusively engaged in manufacturing within the state. It naturally follows that efforts are constantly being made to declare this or that process manufacturing, though the courts have defined or classified those entitled to be so exempted from tax, in cases arising from the efforts of the taxing officials to impose the tax. Among other businesses exempt are the following: Printing and publishing; ship building; refining oil; manufacturing the various merchantable articles of iron and steel; dying cloth and fabrics; making artificial gas; making bricks or other clay products; making ham, bacon, etc., from hogs; preparing smoking and chewing tobacco from the leaf; tanning sole leather from hides; preserving fruit; making coke from coal; manufacturing spices, drugs, etc. from whole spices, and preparing slate for roofing and other purposes. A recent decision of the supreme court holds that a corporation engaged in the manufacture of cement or asphalt pavements or floors, or in structural concrete work is entitled to exemption on the capital so employed. So also a corporation which purchases in a rough or unfinished form, iron, steel, lumber, stone, etc. and which shapes, finishes and makes such material suitable for use at its own place of business, or which may erect such finished product into bridges, roofs, or buildings, is entitled to be classed as manufacturing.

The act specifies that the brewing or distilling of spirits or malt liquors shall not be regarded as manufacturing, so as to entitle companies engaged in that business to exemption from tax, and another act imposes a tax of ten mills upon the value of the capital stock of companies engaged in the distilling of liquor and selling the same at wholesale, in lieu of the five mill

tax imposed upon other corporations. Electric light companies are not entitled to any exemption, nor companies engaged in the manufacture of steam heat. Companies engaged in the manufacture of coke must pay a tax on the proportion of their capital stock invested in coal mines, if they own any such. So also a company engaged in the manufacture of brick, tile, etc. must pay a tax on any capital invested in clay banks, or in any property not actually and exclusively used in its manufacturing business. And this rule obtains generally with respect to such capital stock. Taxation is the rule, the right to exemption must be proved.

Capital stock invested in patents or patent rights is not taxable, nor is capital invested in bonds of the United States or of the state of Pennsylvania. Exemption is also allowed to domestic holding companies on so much of their capital stock as is invested in the ownership of the capital stock of other domestic companies, for the reason that the value of such stock has already been taxed at the hands of the issuing company, or the liability for such tax rests there. No exemption is allowed, however, on the amount of capital invested in the stock of a foreign corporation which does no business in Pennsylvania. Should the foreign corporation be liable in Pennsylvania for tax on its capital stock, the exemption is allowed, but only to the extent that such shares of stock are taxed in Pennsylvania.

The most difficult problem in connection with the tax on capital stock is to ascertain its taxable value. By law the officers of the corporation are required to appraise it under oath "at its actual value in cash, not less however than the average price which said stock sold for during said year, and not less than the price or value indicated or measured by net earnings, or by the amount of profit made and either declared in dividends, or carried into surplus or sinking fund." As comparatively few of the corporations doing business in Pennsylvania have listed their stock on the exchange, the average daily selling price as a guide is lacking in most cases. In the most of the corporations there are no sales of stock, and the taxing officials are obliged to look at the second standard, the

net earnings, and consider also the value of the property. It is easy to see that the net earnings for any one year cannot form a sure guide as to the value of the capital stock, for a corporation may be in operation for ten years, with poor or indifferent success, making no net earnings. A combination of conditions may make it possible for them to earn and pay a dividend of ten or fifteen per cent. for the eleventh year, but that does not necessarily make the stock worth par, for the shareholder has averaged a trifle over one per cent. on his investment, while the corpus of the company's property has been diminished, or its value impaired, out of which future net earnings must be made. What a stockholder receives out of his investment, and what the investing public may be willing to pay for capital stock under ordinary conditions, ought to form a good measure of the actual value, and these form a safer and fairer test than the property value, so long as the state is seeking to tax the actual value of the capital stock. If a company has no indebtedness, and is a going concern, it is obvious that the value of the capital stock ought to be equal to or perhaps greater than the value of the property. It frequently happens that the equity of the shareholder, in the event of liquidation of a company having a large indebtedness, fades to nothing while the state has been taxing that equity at from twenty-five to seventy-five per cent. of its par value.

This brings us to another interesting question, than which there is none more troublesome to the taxing officials: To what extent shall the indebtedness be considered and deducted from the property valuation, in arriving at the taxable value of the capital stock? Under the system in effect when the dividends paid was made the basis for taxation, neither the value of the property nor its encumbrances were considered. But the act of 1891 seems to have changed this situation. In a very exhaustive opinion handed down by Judge Simonton, of the Dauphin county court, in the appeal taken by N. Y. P. & O. R. R. Company from its capital stock tax settlement for 1895, which opinion was affirmed by the supreme court of Pennsylvania, it was held that "A tax on the capital stock of a corporation is a tax on its property and assets, including its

franchises. The question of the actual value in cash of the capital stock is a question of fact which must be determined by considering the value of defendant's tangible property and assets of every kind, including its bonds, mortgages, and money at interest, and its franchises and privileges; and the amount of the encumbrances on its property and franchises is also a relevant fact to be considered but it is not to be specifically deducted from the valuation so ascertained and determined." This opinion has formed a guide, to some extent, in assisting to arrive at taxable values, but to what extent indebtedness or encumbrances shall be considered, is left to the judgment of the taxing officers in each individual case. Where a company pays tax on all its bonded or other debt, generous allowance for such payment is made, as the value of the property is thereby partially taxed, and to tax the same valuation in both the stock and bonds would amount to double taxation, which, while not forbidden by the constitution, must be specifically provided for. It would be manifestly unfair, from another standpoint, for a corporation which has financed itself through the sale of bonds, giving the capital stock, or the major portion of it, as a bonus to the bondholders, which bonds might be owned out of the state, or held in some other way that exempted them from taxation, to be allowed exemption on its capital stock to the amount of its bonded debt. The question of deduction, as well as the weight to be given the facts presented, must be governed by the conditions in each individual case.

What dividends should a corporation earn or pay to justify an appraisalment of its capital stock at par? This varies according to the character of the business done, the nature of its assets, its probable term of existence, etc. Railroad companies paying five or six per cent. are usually taxed at par; oil and natural gas companies, on account of the rapid exhaustion of their properties, are treated more liberally. So also land companies, electric light companies and companies whose franchise has little or no value. The stock of a corporation which regularly pays six per cent. dividends, or even five per cent., whose stock can be readily disposed of, ought to be worth

par. Where there is no market for the stock, the shareholders should be entitled to a higher rate, before an appraisement of par is justified. He is entitled to a reasonable income on his investment, with fair prospects of a return of the principal.

Bourse companies are exempt from tax on so much of their capital stock as is invested in a bourse or exchange hall for the display and sale of manufactured articles and natural products. Fire and marine insurance companies are taxable at the rate of three mills on the actual value of their capital stock.

Foreign corporations doing business in Pennsylvania are taxable in the same manner as domestic companies, and entitled to the same exemption on account of manufacturing in the state. Where only a portion of their capital is employed here, they are taxable on the proportion which the property in the state bears to the whole property. Foreign transportation companies are taxed on the proportion of their capital stock which the mileage over which their cars traveled in Pennsylvania bears to the total mileage traveled. Foreign corporations are not liable to tax on their holdings of the capital stock of other corporations, either domestic or foreign, nor on their bills and accounts receivable nor on their bank deposits, unless such deposits are connected with the transaction of their business in Pennsylvania. Personal property follows the domicile of the owner, as a rule, and in the case of a foreign corporation, the domicile is the state under whose laws it was incorporated.

Failure to file annual reports in time subjects the corporation to a penalty of ten per cent. of the amount of the tax, and this is collected in nearly every case, unless very good reason be shown why it should be abated. In the absence of any report, estimated settlements are authorized by law, from which there is no right of appeal.

Only the more important features of the capital stock tax have been briefly touched upon, for lack of time, and because it is desired to give some attention to other sources.

TAX ON PERSONAL PROPERTY

Pennsylvania has been taxing personal property for state purposes since 1831, though many of the items of personal property which were taxed in the earlier years are now exempt. To illustrate, a tax was imposed on household furniture, pleasure carriages, gold and silver watches by the act of 1840, which was repealed in 1887; trades, occupations and professions were taxed by the act of 1844, and this was repealed in 1871; horses, mares, geldings, mules and neat cattle were taxed by the act of 1844, and this was repealed in 1873. The rapid increase in the number of corporations and the growth of corporate wealth has resulted in a shifting of the burden of taxation, to some extent, from the individual, to the corporation, though it has not by any means silenced the demand for greater relief on the part of the individual.

The act under which the personal property tax is collected was passed in 1889, and amended in 1891 and 1909. As amended by the act of 1891, under which large amounts of tax have been collected, the act reads as follows:

"Section 1. Be it enacted, etc., That from and after the passage of this act, all personal property of the classes hereinafter enumerated, owned, held or possessed by any person, persons, co-partnership or unincorporated association or company, resident, located or liable to taxation within this commonwealth, or by any joint-stock company or association, limited partnership, bank or corporation whatsoever, formed, erected or incorporated by, under or in pursuance of, any laws of this commonwealth or of the United States or of any other state or government, and liable to taxation within this commonwealth, whether such personal property be owned, held or possessed by such person or persons, copartnership, unincorporated association, company, joint-stock company or association limited partnership, bank or corporation, in his, her, their or its own right, or as active trustee, agent, attorney-in-fact or in any other capacity for the use, benefit or advantage of any other person, persons, copartnership, unincorporated association, company, joint-stock company, or association, limited partner-

ship, bank or corporation, is hereby made taxable annually for state purposes at the rate of four mills on each dollar of the value thereof, and no failure to assess or return the same shall discharge such owner or holder thereof from liability therefor to the commonwealth, that is to say:

“All mortgages, all moneys owing by solvent debtors, whether by promissory note or penal or single bill, bond or judgment, all articles of agreement and accounts bearing interest; all public loans whatsoever, except those issued by this commonwealth or the United States, all loans issued by or shares of stock in any bank, corporation, association, company or limited partnership, created or formed under the laws of this commonwealth or of the United States or of any other state or government, including car trust securities and loans secured by bonds or any other form of certificate or evidence of indebtedness, whether the interest be included in the principal of the obligation or payable by the terms thereof, except shares of stock in any corporation or limited partnership liable to the capital stock tax imposed by the twenty-first section of this act, or relieved from the payment of tax on capital stock by said section; all moneys loaned or invested in other states, territories, the District of Columbia or foreign countries; all other moneyed capital in the hands of individual citizens of the state: Provided, That this section shall not apply to bank notes, or notes, discounted or negotiated by any bank or banking institution, savings institution or trust company: And provided, That the provisions of this act shall not apply to building and loan associations: Provided also, That this section shall take effect on the first day of January, Anno Domini one thousand eight hundred and ninety-two.

“Section 2. That the county commissioners or board of revision of taxes of each and every county in this commonwealth are hereby authorized and required, annually, hereafter, at the usual period of making county rates and levies, to assess or cause to be assessed, for the use of the commonwealth, upon all stages, omnibuses, hacks, cabs and other vehicles used for transporting passengers for hire except steam and street passenger railway cars owned, used or possessed within this com-

monwealth by any person or persons or by any corporate body or bodies, and upon all annuities yielding annually over two hundred dollars, a tax of four mills, upon each and every dollar of the value thereof: Provided also, That this section shall take effect on the first day of January, Anno Domini one thousand eight hundred and ninety-two."

The act of 1909, attempting to amend section 1 of the act of 1891, carried this further proviso: "That nothing herein contained shall be construed to relieve or exempt individual depositors in savings institutions having no capital stock from any taxation to which under existing laws such depositors may be subject." It also provided, "That if at any time, either now or hereafter, any persons, individuals, or bodies corporate have agreed or shall hereafter agree to issue his, their or its securities, bonds or other evidences of indebtedness clear of and free from the said four mills tax herein provided for, or have agreed, or shall hereafter agree to pay the same, nothing herein contained shall be so construed as to relieve or exempt him, it or them, from paying the said four mills tax on any of the said such securities, bonds or other evidences of indebtedness as may be held, owned by, or owing to the said savings institution having no capital stock." This amendment went into effect January 1, 1910, but appeals have been taken from the tax settlements made under its provisions, it being claimed that it is unconstitutional. The question is still pending.

The state tax on personal property is assessed by the county commissioners and local assessors, who are elective officers, or by the board of revision of taxes, where such exists. The township collectors pay the tax to the county treasurer, who in turn pays it to the state treasurer. The collectors and the county treasurer receive a commission, the state treasurer a general salary. The necessary blanks for making the assessment upon personal property subject to taxation for state purposes are prepared annually by the auditor general, printed by the state printer, and shipped to the various county seats. The county commissioners distribute them to the local assessors, who require a sworn return from each taxable, the assessor being authorized by law to administer the oath, without

charge. A heavy fine is imposed for making a false return, and a fifty per cent. penalty follows the failure or refusal to make the required return.

Taxables owning shares of stock or bonds of domestic corporations are not required to make a return of such holdings, as the corporation pays the tax on such securities to the state direct. Return is required to be made of such securities issued by foreign corporations, although the state taxes, at the hands of the issuing corporations, shares of stock of companies doing business in Pennsylvania, and this results in double taxation in some cases. The state has also attempted, successfully in some instances, to tax the bonds held by residents of Pennsylvania at the hands of the foreign company, though there is an appeal now pending which will decide which way foreign corporate bonds are to be taxed. Dower rights and insurance policies are not subject to the personal property tax.

Corporations, limited partnerships and joint stock associations, which pay a tax on their capital stock, are not required to make a return of the mortgages, bonds, etc., owned by them, as the value of such securities is taxed in the capital stock of the corporation. State banks paying the four mills tax on the actual value of the capital stock on or before the first Monday of March in each year are not required to make any return of their personal property for the purpose of taxation, though their real estate is taxable locally, the same as the real estate of national banks. Securities of domestic corporations, held by corporations as trustee, agent, or in any fiduciary capacity, are not to be returned, as they are taxed at the hands of the issuing company, but obligations issued by individuals, firms, partnerships, etc., are returnable and subject to tax.

In order to facilitate the work of the assessor and secure true returns, recorders of deeds, mortgages, etc., are required to make a return to the office of the county commissioners or board of revision of taxes of all evidences of indebtedness left with them to be recorded, giving names of parties, residences, amounts, location of land, etc. The prothonotaries and clerks of court are also required to furnish a similar record in the case of judgment, bond or other evidence of indebt-

edness. These records are furnished to the various local assessors.

The board of county commissioners in each county files its report of the returns of personal property with the board of revenue commissioners, made up of the auditor general, state treasurer and secretary of the commonwealth. The amount due from each county is determined upon by this board, and the state treasurer issues his precept or demand for payment. When payment has been made in full, the county is entitled to receive back from the state three-fourths of the amount paid in, the state retaining one-fourth. Each county must stand for the necessary expenses, commissions, abatements, etc., the state's portion being net. The state treasurer may also deduct from a county's portion any amount due the state on other accounts.

TAX ON CORPORATE LOANS

Strictly speaking this is a tax on personal property, but the tax is imposed under a different act of assembly, and the method of its collection is different. From 1864 down various acts attempted to tax this class of personal property, but they were open to objections, until the passage of the act of 1885. Section 4 of this act reads as follows:

“That hereafter it shall be the duty of the treasurer of each private corporation incorporated by or under the laws of this commonwealth, or the laws of any other state or of the United States and doing business in this commonwealth, upon the payment of any interest on any scrip, bond or certificate of indebtedness, issued by said corporation to residents of this commonwealth, and held by them, to assess the tax imposed and provided for state purposes upon the nominal value of each and every said evidence of debt, and to report on oath annually on the first Monday of November to the auditor general the amount of indebtedness of the corporation owned by residents of this commonwealth, as nearly as the same can be ascertained, and it shall be his further duty to deduct three mills on every dollar of the interest paid as aforesaid and return the same

into the state treasury within fifteen days after the thirty-first day of December in each year; and his compensation for his services shall be the same that city and borough treasurers receive for similar services; and for every failure to assess and pay said tax and make report as aforesaid, the auditor general shall add ten per centum as a penalty to the amount of the tax in payment of said tax by a corporation; the bonds, certificates, or other evidences of indebtedness issued by it shall be exempt from all other taxation in the hands of the holders of the same."

Under section 1 of the act of 1891 the rate was made four mills on the dollar.

As stated, this is a tax on the personal property of the individual owner of the obligation, and is laid on the nominal value of all mortgages, bonds, notes, car trust certificates, scrip, judgments, and certificates of indebtedness. When the treasurer of the corporation pays the interest on the outstanding obligations, for which some evidence of indebtedness is issued, it is his duty to deduct from such interest the amount of tax due the commonwealth. Failure on the part of the treasurer to perform this duty, makes the corporation liable for the tax. The act indicates that the report is to be made on the first Monday of November in each year, but as a matter of fact the report covers the calendar year, and the report is regarded as properly made if filed on December 31. Payment of the tax is not made as required by the act, the treasurer or other officer of the corporation postponing payment until he is furnished by the auditor general with a copy of the settlement or statement of the account. The tax is not imposed on the obligations of limited partnerships or joint stock associations. For his services as agent of the commonwealth in collecting the tax, the treasurer of the corporation is allowed five per cent. on the first thousand dollars collected or less, one per cent. on the second thousand or fraction, and one-half of one per cent. on any amount over two thousand dollars. Payment of the amount due must be made within sixty days after the date of the settlement in order to avoid the payment of twelve per cent. interest.

Obligations issued by private corporations are exempt from taxation, under the following conditions: When owned by domestic corporations paying a capital stock tax; owned by national banks; or by state banks or savings banks which pay the four mill tax on or before March first in each year; when owned by trust companies which pay a tax on the value of their shares on or before the first day of March in each year; owned by non-residents; owned by institutions of purely public charity; when no interest has been paid on the obligations during the year; when held by persons whose residences could not be ascertained. Bank notes or notes discounted or negotiated by any bank or banking institution, savings institution or trust company are not taxable, under a proviso to the act imposing a tax on personal property, quoted above. Promissory notes given for current indebtedness, or merchandise notes, are not subject to tax. Persons owning obligations of domestic corporations are not required to return them for taxation to the local assessor, as that results in double taxation.

The greatest difficulty encountered in the collection of this tax is connected with the bonds held by persons whose residences are unknown. It is not easy to trace the ownership of an unregistered coupon bond. The coupons are deposited in banks by their owners, and pass from one institution to another, until they are collected at the bank or trust company where payable. In not many cases is the coupon presented by the owner, and generally the last party handling the coupon has no idea who the owner is, nor through how many hands it has passed. Not only are the duties of assessor and tax collector laid upon the treasurer of the corporation, but he is required to ferret out and discover the whereabouts of the bondholder. The corporation is not necessarily liable for the tax if he fails to find him, but the treasurer must satisfy the taxing officials, or in the event of an appeal, he must convince the court that he has used reasonable diligence to ascertain the residence of the owners. A compromise is sometimes made by the taxing officers, by taxing a part of the bonds, when the return or affidavit does not show the exercise of due diligence. Some of the largest corporations in the state have succeeded

in locating practically all their bonds, running into hundreds of millions of dollars, which were shown to be held or owned by people living in England, France, Germany and other foreign countries, and in many of the states of the Union. This is true principally of the Pennsylvania Railroad Company and the Reading Company. The collection of the tax is not difficult, once the victim is located, but bankers and brokers uniformly decline to reveal the names or residences of their customers, the company in many cases being penalized for its failure to obtain information that could not be secured.

Another difficulty is met in the attempt to tax foreign corporations on their obligations. There seems to be no question that such corporations are required to make the report on loans or indebtedness, but the right of the state to collect tax on such loans has never been upheld by any court decision. Notwithstanding such lack of definite authority, thousands of dollars have been collected on this account, and settlements are regularly made against foreign corporations, doing business in Pennsylvania, or which have brought themselves apparently within the jurisdiction. It is true the supreme court of Pennsylvania in the appeal of the N. Y., L. E. & W. R. R. Co., reported in 145 Pa. 57, held that that corporation was subject to the tax, but the supreme court of the United States (153 U. S. 628) reversed this decision, holding, in effect, that the state of Pennsylvania could not constitutionally impose upon that company the duty, when paying in the city of New York, the interest due upon scrip, bonds, etc., of that company, held by residents of Pennsylvania, of deducting from the interest so paid the amount assessed upon the bonds and moneyed capital in the hands of such residents. There has been no decision by the supreme court of Pennsylvania on any phase of this question since the N. Y., L. E. & W. R. R. decision, and the lower courts have uniformly decided against the practice of the state in taxing such indebtedness, from which decisions the commonwealth has not appealed. There is a case now pending, in the nature of a test case, which will probably settle this vexed question.

Owners of corporate obligations occasionally report such

holdings, by mistake, to the local assessor and pay the tax before the error is discovered. In such cases the taxing officials exempt the corporation from paying the tax on such amount. Obligations are taxable for only the portion of the year they are outstanding.

Since the passage of the act of 1885, the custom has become general of issuing bonds free of tax. This refers only to an agreement on the part of the corporation that it will pay any tax on its obligations for which the holders may be liable. For example, if the bonds are tax free in Pennsylvania and the owner is a non-resident, they are not free of tax so far as he is concerned. No attention is paid to this agreement by the taxing officers, except when the bonds are held by savings institutions having no capital stock.

TAX ON CORPORATE GROSS RECEIPTS

This is imposed by section 23 of the act of June 1, 1889, which reads as follows:

“Section 23. That every railroad company, pipe line company, conduit company, steamboat company, canal company, slack water navigation company, transportation company, street passenger railway company, and every other company, joint-stock association or limited partnership, now or hereafter incorporated or organized by or under any law of this commonwealth, or now or hereafter organized or incorporated by any other state or by the United States or any foreign government, and doing business in this commonwealth, and owning, operating or leasing to or from another corporation, company, association, joint-stock association or limited partnership, any railroad, pipe line, slack water navigation, street passenger railway, canal or other device for the transportation of freight or passengers or oil, and every telephone or telegraph company incorporated under the laws of this or any other state or of the United States and doing business in this commonwealth, and every express company, incorporated or unincorporated, doing business in this commonwealth, and every firm, co-partnership or joint-stock company or association doing express

business in this commonwealth, and every electric light company and every palace car and sleeping car company, incorporated or unincorporated, doing business in this commonwealth, shall pay to the state treasurer a tax of eight mills upon the dollar upon the gross receipts of said corporation, company or association, limited partnership, firm or co-partnership, received from passengers and freight traffic transported wholly within this state and from telegraph, telephone or express business done wholly within this state, or from business of electric light companies, and from the transportation of oil done wholly within the state; the said tax shall be paid semi-annually upon the last days of January and July in each year; and for the purpose of ascertaining the amount of the same, it shall be the duty of the treasurer or other proper officer of the said company, firm, co-partnership, limited partnership, joint-stock association or corporation, to transmit to the auditor general a statement, under oath or affirmation of the amount of gross receipts of the said companies, co-partnerships, corporations, joint-stock associations or limited partnerships derived from all sources and of gross receipts from business done wholly within the state, during the preceding six months ending on the first days of January and July in each year; and if any such company, firm, co-partnership, joint-stock association, association or limited partnership or corporation, shall neglect or refuse for a period of thirty days after such tax becomes due, to make said returns or to pay the same, the amount thereof with an addition of ten per centum thereto, shall be collected for the use of the commonwealth as other taxes are recoverable by law: Provided, That in any case where the works of one corporation, company, joint-stock association or limited partnership are leased to and operated by another corporation, company, association or limited partnership, the taxes imposed by this section shall be apportioned between the said corporations, companies, associations or limited partnerships in accordance with the terms of their respective leases or agreements, but for the payment of the said taxes the commonwealth shall first look to the corporation, company, association or limited partnership operating the works, and upon

payment by the said company, corporation, association or limited partnership of a tax upon the receipts as herein provided derived from the operation thereof, the corporation, company, joint-stock association or limited partnership from which the said works are leased, shall not be held liable under this section for any tax upon the proportion of said receipts received by it as rental for the use of said works."

Under this act reports must be made twice a year, covering the six months ending June 30, and December 31, respectively. The same penalties for failure to report apply here as in reports on capital stock and loans. To avoid the penalty reports should be filed on or before July 30 and January 31 in each year, and payment of the tax must be made within sixty days after the settlement.

Receipts derived from the carrying of United States mails and receipts from interstate commerce business are not subject to taxation under this act. Nor are tolls received by a railroad company for the use of its tracks by another railroad company subject to tax. Express companies, railroad, railway, pipe line, telephone and telegraph companies pay only on the gross receipts derived from business done wholly within the state. Electric light companies, under a supreme court decision, must pay a tax on the receipts derived from their business, which is held to include not only receipts from the sale of current for lighting, but from sale of current for power, sale of steam, electric supplies, scrap, etc. When it is considered that artificial gas companies, the natural competitors of electric light companies, pay no tax whatever on their gross receipts, nor any tax on their capital stock, which electric light companies pay, one cannot escape the conclusion that taxes are not exactly uniform upon the same class of subjects, or else the classification is somewhat at fault.

Foreign transportation companies are taxed the same as domestic, on the receipts from business done wholly within the state.

COLLATERAL INHERITANCE TAX

Under the provisions of the act of April 27, 1826, a tax was imposed upon collateral inheritances and Pennsylvania was the first state to levy such a tax. The act now in force was passed on May 6, 1887, and its twenty-one sections are too long to be quoted in full. Section 1 of the act, as amended by the act of 1905, reads as follows:

“That all estates, real, personal and mixed, of every kind whatsoever, situated within this state, whether the person or persons dying seized thereof be domiciled within or out of this state, and all such estates situated in another state, territory or country, when the person, or persons, dying seized thereof, shall have their domicile within this commonwealth, passing from any person, who may die seized or possessed of such estates, either by will, or under the intestate laws of this state, or any part of such estate, or estates, or interest therein, transferred by deed, grant, bargain, or sale, made or intended to take effect, in possession or enjoyment after the death of the grantor, or bargainer to any person or persons, or to bodies corporate or politic, in trust or otherwise, other than to or for the use of father, mother, husband, wife, children and lineal descendants born in lawful wedlock, children of a former husband or wife, or the wife, or widow of the son of the person dying seized or possessed thereof, shall be and they are hereby made subject to a tax of five dollars on every hundred dollars of the clear value of such estate or estates, and at and after the same rate for any less amount, to be paid to the use of the commonwealth; and all owners of such estates, and all executors and administrators and their sureties, shall only be discharged from liability for the amount of such taxes or duties, the settlement of which they may be charged with, by having paid the same over for the use aforesaid, as hereinafter directed: Provided, That no estate which may be valued at a less sum than two hundred and fifty dollars shall be subject to the duty or tax.”

Collateral inheritance taxes are collected by the register of wills in each county, an elective officer, who acts as the agent

of the commonwealth, for which he is allowed a commission, graded according to the amount collected.

The machinery providing for the payment of this tax is somewhat elaborate and the decisions of the courts are many and varied, so that it will be impossible in this paper to discuss this tax at any length. We shall be content with a few general observations.

Under this law the state is made one of the beneficiaries of estates passing to collateral heirs, and the tax is upon the value of such estate, clear of debts, expenses of administration and lawful claims of third parties.

This being a tax on the right to take, bequests for charitable and religious purposes are taxable.

By the act of May 5, 1911, an estate bequeathed to an adopted child or children is not subject to tax.

On the payment of the tax within three months after the death of the decedent, a discount of five per centum is allowed. If the tax be not paid within a year from the date of death of decedent, interest at the rate of twelve per cent. is charged upon the amount due, unless the delay has been unavoidable.

Provision is made in the act of 1901 for a refund of the amount of collateral inheritance tax erroneously paid to the register of wills for the use of the commonwealth, the application to be made within two years from date of payment, except in case of unavoidable delay or litigation.

Appraisers of estates are appointed by the register of wills in the county where the decedent had his residence, or the principal part of the estate is located, and are allowed a per diem compensation of two dollars.

The collateral inheritance tax is made a lien on the property chargeable therewith until paid. Suit must be brought within five years after the tax is due else the lien ceases as against a purchaser, though it is continued where there is no purchaser for forty-two years, after which time the tax will be presumed to have been paid.

TAX ON PREMIUMS OF FOREIGN INSURANCE COMPANIES

A very considerable revenue is received from this source. The act of April 4, 1873 regulates the doing of insurance business in Pennsylvania for foreign insurance companies, and section 10 of this act provides for the report and the amount of tax. This section reads as follows:

“No person shall act as agent or solicitor in this state of any insurance company of another state, or foreign government, in any manner whatever relating to risks, until the provisions of this act have been complied with on the part of the company or association, and there has been granted to said company or association, by the commissioner, a certificate of authority, showing that the company or association, is authorized to transact business in this state; and it shall be the duty of every such company or association, authorized to transact business in this state, to make report to the commissioner in the month of January of each year, under oath of the president or secretary thereof, showing the entire amount of premiums of every character and description received by said company or association in this state, during the year or fraction of a year ending with the thirty-first day of December preceding, whether said premiums were received in money or in the form of notes, credits or any other substitute for money, and pay into the state treasury a tax of three per centum upon said premiums; and the commissioner shall not have power to grant a renewal of the certificate of said company or association until the tax aforesaid is paid into the state treasury.”

By a proviso to the act of June 28, 1895 the annual rate was reduced to two per cent.

Such companies are not required to make any further report or pay any other tax in the state, unless they own real estate, which is subject to taxation for local purposes. There is no settlement or adjustment of the tax, payment being made to the state treasurer through the commissioner of insurance.

One half of the net amount received from the business done in Pennsylvania by foreign fire insurance companies is paid

out annually to the cities, boroughs and townships of the first class, based upon the business done in each locality by such foreign company.

TAX ON TRUST COMPANIES

All trust companies are incorporated under the act of April 29, 1874, providing for the insurance of owners of real estate, etc., from loss by reason of defective titles, liens and encumbrances. They are taxed upon the value of their shares of stock, as provided by the act of June 13, 1907. Such companies are required to report annually for the year ending on the 20th day of June, under oath, showing the amount of capital stock paid in, the surplus and undivided profits. The total of these items forms the basis of taxation at the rate of five mills. Payment of the tax on or before the first day of March in each year, entitles such company to exemption from any further tax, except on their real estate, and they are also exempted from taxation on so much of their capital, surplus and profits as is invested in the shares of stock of corporations liable to pay to the commonwealth a capital stock tax or a tax on shares.

The amount collected from trust companies as tax on capital stock and loans is included in the collections from those sources under the head of corporations, and for 1911 the amount of capital stock tax was \$1,093,191.39.

Prior to 1907 trust companies were taxed at the rate of five mills as other corporations, on the average price at which the stock sold during the year, or on the value as shown by the net earnings, or dividends, while banks were taxed at the rate of four mills on the amount of their capital, surplus and profits, and the stock of some of the larger trust companies would sell for several hundred dollars a share more than its book value. This was regarded by them as an unfair tax and through their efforts the act of 1907 was put on the statute books, though it is open to serious objections.

Trust companies do what is practically a banking business, although technically they are not allowed to discount paper.

They may act as trustee, guardian, executor, assignee, receiver and surety, buy and sell real estate, become security, and act as agents generally.

BONUS ON CHARTERS

The first general bonus act was passed in 1868, although corporations chartered by special acts passed prior to that time, were sometimes required to pay a bonus of one-fourth or one-half of one per cent. for the privilege of incorporating. By the terms of the act of May 3, 1899, the rate is made one-third of one per cent. on the authorized amount of capital stock, and a like bonus on any subsequent authorized increase thereof. The act of 1901 allows payment of bonus when the stock is actually increased, but the original bonus payment must be made at or before the granting of the letters patent. Corporations having special charters, which provide for an increase of capital stock, are allowed to pay at the rate specified in the charter. All corporations, except building and loan associations, and corporations of the first class, are liable for bonus. Corporations of the first class are those incorporated by the courts, and are usually not for profit.

Prior to May 8, 1901 foreign corporations doing business in Pennsylvania were not required to pay bonus for the privilege of doing business in the state, but an act passed in that year imposed upon all foreign corporations, limited partnerships, or joint stock associations, except foreign insurance companies, whose principal office or chief place of business was located in Pennsylvania or which had any part of their capital employed wholly within the state, the duty of making an annual bonus report and of paying a bonus at the rate of one-third of one per cent. on the amount of their capital actually employed or to be employed wholly in the state of Pennsylvania and a like bonus on each subsequent increase. The courts have decided that this act did not apply to foreign corporations that were in the state prior to the passage of the act, or which had any part of their capital employed in Pennsylvania, at that date. Bills and accounts receivable are not regarded as capital so

employed but a bank deposit, used in the transaction of business, is held liable for bonus.

Domestic limited partnerships were not required to pay a bonus prior to May 8, 1901, but an act passed at that date made them liable at the same rate as corporations, one-third of one per cent. The receipt of the state treasurer for the amount of the bonus must be recorded by the recorder of deeds in the county where the partnership expects to do business, at the same time the articles of association are, before the partnership has a legal existence.

Bonus has been defined as the consideration for the grant of a privilege or franchise, and must not be confused with tax on capital stock. The amount charged, in the case of a domestic corporation, has nothing to do with the business of the company, nor how its capital shall be invested or employed. The value of the tangible assets in the state usually forms the basis in the case of a foreign corporation.

TAX ON BANK STOCK

The original act imposing a tax on banks was passed nearly one hundred years ago, on May 21, 1814. It was fixed on the dividend basis. Many changes have been made since that date, which would be interesting to note as matters of history, if time permitted.

The present taxing act, passed on July 15, 1897, provides for a tax at the rate of four mills on the actual value of the shares, the actual value of each share to be ascertained by adding together the amount of capital stock paid in, the surplus and undivided profits, and dividing this amount by the number of shares. Forty days are allowed for the payment of the tax, after settlement made. Failure to file the report or pay the tax at the specified time, or the making of a false report, subjects the offender to a fifty per cent. penalty, to be collected from the bank, according to law. Banks paying the four mill tax on actual value of their stock on or before the first day of March in each year, shall not be subject to any further taxation, except upon the value of their real estate, and

such bank is not required to make the personal property return to the local assessor. In lieu of this tax, banks may elect to pay a tax at the rate of ten mills on the par value of their stock, and the payment of this tax on or before the first day of March each year, relieves such bank from local taxation, except upon its real estate. Banks may elect to pay their tax either by taking the amount from their general fund, or by collecting it from the shareholders; the former course is usually followed. The end of the tax year for banks for filing the report is June 20th, and all accounts are presumed to be closed by August 1st. National banks are taxed in the same manner and at the same rate as state banks.

In effect, the tax on bank stock is a tax on the personal property of the owner of the shares, and the cashier of the bank acts as the agent of the commonwealth in the collection of it, though he is not compensated for this service. The rate is the same as on personal property, i. e. four mills. The shares of stock of state banks are, like those of national banks, taxed but once, and that at the institution. Such ownership is not reported to the local assessor, for the purpose of taxation. Banks are not allowed any exemption from taxation on account of the ownership of shares of corporate stock, or of bonds of the United States or of the state of Pennsylvania.

The proviso allowing payment of the ten mill tax is unjust, discriminating in favor of the strong banks against the weaker. No bank will pay the ten-mill tax until its capital, surplus and profits are equal to two and one-half times its capital stock. To illustrate,—a bank having a capital stock of \$100,000, surplus of \$100,000 and undivided profits of \$50,000, may pay either the four-mill tax on \$250,000 the actual value of its shares, or ten mills on the par value of its capital stock; the tax is \$1,000 in either case. Until a bank accumulates a large surplus and profits it pays the four-mill tax, because it cannot afford to pay the ten. A bank having a capital of \$200,000, with surplus and profits amounting in all to \$750,000 pays \$2,000 under the ten mill proviso; if taxed at a flat rate of four mills, the tax would be \$3,000. The difference in the amount the state would receive at the four mill rate over the ten mill rate approximates \$400,000 annually.

TAX ON COUNTY AND MUNICIPAL LOANS

Section 42 of the act of April 29, 1844, contains this provision with respect to the tax on loans or indebtedness of counties, cities, etc.

“* * * And that it shall be the duty of the treasurer of each county, incorporated city, district and borough of this commonwealth, on the payment of any dividend or interest, to any holder or agent claiming the same on any scrip, bond or certificate of indebtedness issued by said incorporated city, district and borough aforesaid, to assess the tax herein made and provided for state purposes, upon the nominal value of each and every said evidence of debt; said tax to be deducted by the said treasurer on the payment of any interest or dividend aforesaid, and the same shall be held by him until paid over to the state treasurer, and the said treasurers shall be subject to the same penalties and liabilities now prescribed by existing laws in relation to taxes on bank dividends.”

The above was supplemented by section 4, of the act of April 30, 1864, which follows:

“That the treasurer of each county and city, the burgess or other chief officer, of each incorporated district, or borough of this commonwealth, within ninety days after the passage of this act, shall make return, under oath, or affirmation, to the auditor general, of the amount of scrip, bonds or certificates of indebtedness, outstanding by said county, city, district, borough, or incorporation, as the same existed on the first day of January, one thousand eight hundred and sixty-four, and of each succeeding year thereafter, together with the rates of interest thereon, at each of those periods, under the penalty of five thousand dollars, the amount to be settled by the auditor general, and the amount thereof sued for, and collected, as debts due by defaulting public officers are collected: Provided, That on the receipt of said returns, the auditor general shall proceed to settle the accounts of each county, city and borough with the commonwealth, fix the state tax due, and unpaid, and transmit notice of the amount, by mail, to officers making said returns; and that if the amount, so found due, shall not be paid

within sixty days, the attorney general shall sue and collect the same, with interest, from the date of such settlement; and hereafter it shall be the duty of the treasurer, of every county, city, borough, and incorporated district, in this commonwealth to deduct the said state tax, on payment of any interest, or dividend, on debts due by the county, city, borough, or incorporated district, and pay the same over to the state treasurer, within thirty days after the said interest, or dividend, has fallen due."

It will be noticed that this tax, the same as the tax on bank stock, trust company stock and corporate bonds, is a tax on the personal property of the individual owners of the bonds, the principal difference being that ownership of the bonds outside of the state exempts them from taxation, while the stock of banks and trust companies is taxed as a whole, regardless of the residence of the owners of the shares. Lack of time prevents us from going into a discussion of the question whether or not the tax on capital stock is a tax on the personal property of the owners of such stock.

The tax on bonds under this heading is at the rate of four mills. Obligations on which no interest is paid are not subject to tax. All kinds of obligations issued by counties, cities, etc., should be reported to the auditor general, except school bonds, which are taxed under another act, recently passed, at the same rate and in the same manner, the treasurers of the separate school districts to look after the filing of the reports and payment of the tax.

TAX ON WRITS, WILLS, DEEDS, ETC.

This is one of the oldest methods of taxation and the changes in the law have been few. The act of April 6, 1830, now in force, provides as follows:

"Section 3. The prothonotaries of the courts of common pleas and the prothonotary of the supreme court having original jurisdiction in this commonwealth, shall demand and receive on every original writ issued out of said courts (except the writ of habeas corpus), and on the entry of every amicable action, the sum of fifty cents; on every writ of certiorari issued

to remove the proceedings of a justice or justices of the peace or alderman, the sum of fifty cents; on every entry of a judgment by confession or otherwise, where suit has not been previously commenced, the sum of fifty cents; and on every transcript of a judgment of a justice of the peace or alderman, the sum of twenty-five cents.

Section 4. The several recorders of deeds shall demand and receive for every deed, and for every mortgage or other instrument in writing, offered to be recorded, fifty cents.

Section 5. The several registers of wills shall demand and receive for the probate of a will and letters testamentary thereon, the sum of fifty cents, and for granting letters of administration, the sum of fifty cents.

Section 6. In lieu of the fees now receivable by the secretary of the commonwealth, for the use of the commonwealth, there shall be demanded by and paid to the recorders of deeds within the city of Philadelphia and of the respective counties, upon the several commissions hereafter named, at or before the delivery thereof, to the several officers commissioned, viz: On the commission of * * * health officers, lazaretto physician and port physician, * * * on the commission of a prothonotary, clerk of oyer and terminer, of quarter sessions, of orphans' court * * * register of wills, recorder of deeds, * * * interpreter of foreign language, sheriff of a county, each the sum of ten dollars."

Under the act of 1897 no state tax is to be paid on an appeal to the supreme or superior courts, or on any writ or process of either of said courts.

All county officers are required to make monthly returns and pay over to the state treasurer monthly all fees received. A commission of three per cent. is allowed for the collections.

TAX ON GROSS PREMIUMS

of domestic insurance companies is collected under the act of June 28, 1895. A semi-annual report is provided for, covering the entire amount of premiums and assessments received

during the preceding six months. A tax at the rate of eight mills is assessed on the business transacted within the state. This act does not apply to companies doing business upon the purely mutual plan, without any capital stock or accumulated reserve, and purely mutual benefit associations, whose funds for the benefit of members, their families or heirs are made up entirely of the weekly or monthly contributions of their members and the accumulated interest thereon.

TAX ON NET EARNINGS OR INCOME

Section 10 of the act of June 7, 1879 and its supplemental act of June 1, 1889, imposes a tax at the rate of three per cent. upon the net earnings of incorporated savings institutions or limited partnerships having no capital stock. This tax is in addition to any tax on personal property to which such companies may be subject.

TAX ON PRIVATE BANKERS

By the act of June 13, 1901, amending the act of June 27, 1895, private bankers are required to report annually on November 30th, setting forth the full amount of receipts from commissions, discounts, abatements, etc., for the year preceding, and pay a tax at the rate of one per cent. on the aggregate amount of such gross receipts.

BUILDING AND LOAN ASSOCIATIONS

are taxable at the rate of four mills upon all full paid, prepaid and fully matured or partly matured stock, upon which cash dividends or interest is paid, the tax to be deducted from such dividend or interest. Annual reports are required, not only to the auditor general but to the banking department, as provided by the act of June 22, 1897.

It will be noted that nothing has been said regarding the

licenses of various kinds, which bring large amounts of money into the state treasury, and are practically the same as a tax, but it has seemed unadvisable to try to cover too much ground, or discuss too many divisions in one paper. As a matter of fact the paper should have been limited to the tax imposed only on corporations, to do the subject justice, and enough could have been found in discussing the tax on corporate capital stock to have profitably occupied the time.

A PROGRESS REPORT ON CORPORATION TAXATION IN CALIFORNIA

By A. B. NYE

State Controller and Chairman of State Board of Equalization

(Read by Professor H. E. Chandler)

The paper entitled "Tax Reform in California" which was contributed to the conference last year by Prof. C. C. Plehn contained so full a statement of the origin of the movement, of the formulation of the law, and of the results in operation during the first year, that it does not seem worth while again to cover that ground in detail. Prof. Plehn, as secretary and expert of the tax commission, was the principal architect of the system, and his statement is therefore authoritative. The present paper will be little more than a progress report, stating briefly the principal facts connected with the second year of operations, and supplementing it with an account of some of the difficulties which have been encountered in the practical administration of the law.

But for the convenience of those who have not read Prof. Plehn's article, or whose recollection needs to be refreshed, it will be best first to re-state concisely the principal provisions of the California state tax law as embodied in the constitution and statutes. The object aimed at was the separation of state from local taxation, by giving the state its own special revenues, so that the general property tax might be left entirely to county and municipal governments. The method chosen for the accomplishment of this end was the complete withdrawal from local taxation of public service corporations belonging to the following classes, which were to be taxed on their operative property in amounts equal to the stated percentages of their gross receipts:

Railroads (including street railways).....	4%
Gas and electric companies.....	4%
Telegraph and telephone companies.....	3½%
Car companies	3%
Express companies	2%

In addition banks are taxed one per cent. on their paid-up capital, surplus and undivided profits, and insurance companies one and one-half per cent. on their premium receipts, less return premiums and reinsurance. Banks and insurance companies, like the public service corporations before enumerated, are exempt from county, municipal and district taxation, except that real estate owned is taxable; and this is offset by allowing the banks a deduction from the sum of capital, surplus and undivided profits equal to the county assessment of the real estate, while in the case of the insurance companies the local real estate taxes are deducted from the proceeds of the one and one-half per cent. tax rate.

Again, the state was given the exclusive right to tax franchises, the rate of tax being fixed at one per cent. on actual value.

Certain general revenues which the state had previously enjoyed, such as receipts from fees and commissions, poll taxes and inheritance taxes, it was permitted to retain, in the absence of legislation to the contrary, and a distinct provision was inserted in the constitutional amendment to the effect that if in any year the special revenues set apart for the purpose shall be inadequate for the support of the state government, a deficiency ad valorem tax may be levied to make good the deficit, such tax to be a charge against all property, including that of the withdrawn corporations.

Thus, if the special corporation taxes, supplemented in the manner stated, raise sufficient money to maintain the state government, there is complete separation, but otherwise not. The exceptions to this general statement will be noted a little later. At each biennial session of the legislature a tax levy bill is passed fixing the amount of money necessary to be raised, and if other receipts prove insufficient, an ad valorem

tax must be laid by the board of equalization. For 1911-2 the required amount (general fund only) was \$12,404,670, and for 1912-3 it is \$12,657,924. No account is taken in these figures of six or eight million dollars of special receipts, such as bond sales, San Francisco harbor collections, receipts in contingent funds of institutions, and poll taxes (which fall automatically into the school fund).

In 1911-2 the corporation taxes and departmental receipts reached the total called for by the tax levy bill, so that no deficiency tax was needed, and the same fortunate condition will prevail in 1912-3, the current year. For the first two years of its operation, therefore, the new plan has produced the amounts of income required, and to that extent it has been a success. Revenue laws are made to raise revenue, and this one has so far fulfilled the primary purpose of its creation.

The following comparison of taxes assessed by the state board of equalization for the first and second years will be of interest.

Public Service Corporations:

	1911.	1912.
Railroads (including street railroads)	\$4,776,053.58	\$4,941,280.88
Light, heat and power companies.	1,224,767.34	1,364,158.80
Telegraph and telephone companies	424,799.94	486,242.98
Express companies	102,351.70	104,458.82
Car companies (including Pullman)	89,262.02	91,292.74
Banks	1,638,646.20	1,703,304.28
Insurance companies	520,214.68	602,204.88

Franchises:

Oil companies	346,359.00	302,835.00
Water companies	119,441.00	94,295.00
Mining companies	94,650.00	83,560.00
Building and loan associations... ..	10,675.00	11,915.00
All other (mercantile, etc.).....	1,106,745.00	1,152,820.00

The totals compared by years are as follows:

	1911.	1912.	Increase or Decrease.
Public service cor- poration taxes .	\$8,776,095.46	\$9,292,943.38	+516,847.92
Franchises taxes .	1,677,870.00	1,645,425.00	—32,445.00
	<hr/>	<hr/>	
Totals	\$10,453,965.46	\$10,938,368.38	+484,402.90

The increase of \$516,000 in taxes on public service corporations was the equivalent of a growth of about six per cent. in their gross receipts, or in their capitalization, or premium receipts, in one year. The small falling off in franchise taxes has no special significance; about 19,000 corporations were assessed on franchises each year, and while some were reduced the second year, others were increased. The probabilities, however, favor the view that the franchise taxes attained their maximum the first year and that they will remain about the same or fall off somewhat in future years. More opposition has been manifested toward the franchise taxes than toward any of the others, and the board of equalization has come to realize that the antagonism is not without some ground of justification. The corporations which are taxed on franchises and still remain subject to local taxation assert that they are unfairly burdened as compared with unincorporated firms and business houses. A state corporation license tax statute which had been in existence for some years was not repealed when the constitution was amended in 1910, and in consequence the corporations complain that they have been compelled to pay, practically, two franchise taxes, which, in effect, is true. A great deal of confusion has arisen therefrom, and there is practical agreement that this duplication of corporation taxes should cease. Abolishment of the corporation license tax at the next session of the legislature is now assured by a recent decision of the California supreme court holding that as applied to corporations doing an inter-state business the law is invalid because it results in taxing them on business and capital outside of the state, as well as in it. Nevertheless, the cor-

poration license tax has brought in about \$750,000 of revenue each year, and to make good the loss of that amount will occasion some difficulty.

In its revenue-raising qualities the new tax system has really exceeded the advance claims made for it, which is something rather unusual in the history of tax reforms. The tax commission which framed the amendment, made at different times three separate estimates of the amounts of revenue which the new taxes would produce, and for public service corporations alone these estimates were as follows: 1905, \$6,305,000; 1908, \$6,975,176; 1909, \$7,008,645. As a matter of fact the taxes of public service corporations produced, as we have seen, \$8,776,095.46 in 1911 and \$9,292,943.38 in 1912. This shows a considerable excess of revenue over the estimates, even after allowing for the growth of corporation business during the years which have passed since the tax commission did its work. The highest estimate of franchise taxes which the tax commission ever made was less than \$1,000,000, and this was exceeded the first year by more than \$600,000.

Yet notwithstanding this very favorable showing of receipts, there has been no excess of revenues, and so rapidly do the expenditures tend to increase, especially since the state has assumed, or is about to assume, certain new functions, that for the year 1913-4 we are confronted with a revenue situation which gives some cause for concern, and important legislation is looked for at the coming session of the legislature. One of the propositions which seems certain to be put forward is an increase of the tax rates of the corporations, which can be effected at any time by a vote of two-thirds of the members in each house of the legislature. During the time when the campaign for the adoption of the constitutional amendment was in progress its advocates indulged somewhat too freely in the argument that it afforded a chance to let the corporations pay all of the expenses of the state government, with the result that former opponents are now disposed to insist on a literal fulfillment of the promise, regardless of how much the expenses of the government may be increased. It is a current saying, which agrees fairly well with the facts, that the state expend-

itures increase ten per cent. a year, and the experience of the first two years justifies us in anticipating an increase of not more than six per cent. in the taxes from public service corporations.

What course the legislature will actually take it is, of course, impossible to say. The board of equalization, with a view to furnishing the legislature with such information as it requires for intelligent action, has undertaken an extensive compilation of assessment and tax data, which will involve the ascertainment of the average of all taxes paid in proportion to actual values of property, both by general taxpayers and by the corporations. In arriving at estimates of the values of property of the public service corporations use will be made of valuation data which the railroad commission has spent considerable time and money in assembling, as well as of other available data. Of course the theory of the corporation tax rates is that they shall be so fixed as to compel the withdrawn corporations to bear an equal burden of taxation with all other property.

After two years of experience with the new law, it is the judgment of the administrative officers charged with its enforcement that it is a workable system. Considering how complete a change it has wrought, it is rather remarkable that it has operated as smoothly as it has, and yet there have been many problems, and some still remain to be solved. It is a fact worth noting that the difficulties which now appear most formidable arise out of one or two provisions in the constitutional amendment which were not in it as first drawn and which formed no part of the original scheme, which makes it regrettable that it was not adopted as first framed. But inasmuch as the whole movement for tax reform had grown out of a conflict between state and local interests, so the plan of separation was not allowed to succeed without compromises. When first submitted to popular vote, in 1908, the constitutional amendment was defeated, although the support it received was great enough to indicate that with some modifications it might be carried. So it was resubmitted two years later after there had been introduced two or three changes in-

tended to satisfy communities which thought they were in danger of losing too heavily.

One source of dissatisfaction was found in several rural counties of large area but limited wealth and population which had been collecting large amounts of taxes from the railroads, which had been assessed by the board of equalization and the assessments apportioned among the counties strictly on a mileage basis, regardless of values of right of way or density of traffic. This made a mile of terminals in a great city worth no more than a mile of line in a desert country furnishing no business. The counties which had enjoyed the greatest advantages from this arrangement were naturally reluctant to relinquish them without compensation, and in response to their appeals the amendment was changed to provide that until 1918 the state shall reimburse counties which sustain loss of revenue from withdrawal of the railroad property.

Much more important, however, was another concession. Before the adoption of the amendment many county, municipal and district bond debts were outstanding, and it was contended that inasmuch as the property of the public service corporations constituted a part of the security when these bond debts were contracted, it should still be held to pay them, and that there was no good reason for relieving the corporations of their share of the obligations imposed by these debts. Therefore, a compromise was agreed upon, whereby the property of the withdrawn corporations should still be taxable to pay their due proportion of principal and interest of the bond debts, but the amount so paid should be deducted from the sums the corporations were to pay to the state.

Both of these departures from the first amendment, therefore, involved the sacrifice of a portion of the separate revenues provided for the state.

In the first instance these concessions to local interests accomplished the object desired, for on re-submission the amendment was adopted by a vote of 140,000 to 96,000. When the statute was drawn to carry out the purposes of the amendment the difficulty regarding reimbursement for withdrawal of railroads was disposed of for the time being by designating fixed

sums, very moderate in amount, to be paid to seven counties which were the largest losers. It is known that at the next session of the legislature these counties will present claims to larger compensation, and no doubt other counties will become claimants.

Dealing with the problem of "bond refunds," as the payments of principal and interest on account of the corporations came to be called, was a more involved question. Local assessment of the corporations already taxed for state purposes was made necessary, unless the board of equalization was to attempt to make an ad valorem assessment of the properties of the withdrawn corporations in all of the indebted counties, cities and towns and districts, and this last was deemed to be impracticable. There were about twenty-five indebted counties, a hundred and forty cities and incorporated towns and not less than five hundred districts entitled to bond refunds, and for the board of equalization to do the assessment work would have necessitated the employment of an army of deputies. Hence it was decided to have the assessments made by the local assessors, on special "operative rolls," but as a check upon over-valuation of corporation property, the state board of equalization was given authority to revise them. The vice of this arrangement lies in the fact that the corporations which are locally assessed for bond debt purposes do not have to pay the taxes, which come out of the state, and consequently there is a lack of inducement for the corporations to protest against over-assessment, while the board of equalization at Sacramento cannot always be well informed of what is being done in towns or districts several hundred miles away. It is required that copies of the operative rolls be sent to the state board, but this does not act as a perfect check. It is not surprising that the local assessments of operative property should tend to increase more rapidly than those of non-operative property, and if this continues it must reduce proportionately the net revenues of the state. This year the assessors of at least two cities have claimed the right to put upon their operative rolls franchise assessments equal in amount to those made by the board of equalization of corporations having their principal places of

business in such cities, and since this is presumptively legal, all other cities and the counties are likely to follow the practice next year, which will have the effect of diminishing sensibly the net return to the state from franchise taxes.

Time alone will show how troublesome this relic of the old order of things is going to become, but it can only be regarded as a misfortune that when separation was undertaken it was found necessary to make the bond debt compromise and thereby leave the new system attached to the old by a ligament which promises to prove so obstructive of real freedom of operation.

Meantime, one more complication, though this time a temporary one, had arisen to attend the inauguration of the new tax law. At the same election at which the tax amendment to the constitution was adopted in 1910 the electors voted in favor of a tax, to continue four years, for the purpose of contributing \$5,000,000 of state aid to the Panama-Pacific Exposition to be given in the city of San Francisco in 1915, and this, too, was done by constitutional amendment. It was provided that this tax should be paid by all property not previously exempted from taxation and should be assessed and levied under the old law. That arrangement, which was a departure from the principle of the new tax system at the very moment of its adoption, has the effect of prolonging, for this special purpose, the force of the old tax laws, which must be operated in conjunction with the new ones. Aside from introducing a complication which has been a cause of perplexity to local tax officials, and also preventing the theoretical separation from being an actual one, the greatest significance of the incident lies in the suggestion it contains of future possibilities in the same direction.

In the matter of litigation over the new tax law, a quarter from which danger was naturally feared, we have so far been fortunate. Years ago, when the constitution was first amended to authorize assessments of railroads by the state board of equalization, instead of by local assessors, the railroads resisted in the courts, and although the state won eventually, there was a period of eight years during which the railroads did not pay their taxes. With this history fresh in mind, the authors of the

amendment of 1910 wisely provided that the corporations must pay their taxes first and litigate, if at all, only after having done so. About six months since, after paying their taxes for 1911, some eighty corporations filed suits, raising a variety of technical questions under the state and federal constitutions, and the first of these suits recently came to trial in the courts of first resort, and are still pending. It is the quite general belief that the new tax law has been so well guarded in a legal sense that these attacks upon it will fail, although since the decision before referred to in which the supreme court held the corporation license tax law to be invalid, efforts have been made to turn this decision against the franchise taxes on foreign corporations. But inasmuch as the board of equalization had been careful enough to compute these taxes only upon the proportion of capitalization of foreign companies used in California, serious danger from that direction is not apprehended. The Pullman Company and the Wells-Fargo Express Company are in court on points growing out of a question they have raised concerning taxation of receipts from inter-state business, but apparently with no great prospect of success, in view of what the decisions of the United States courts have been up to this time.

While the question of the effect of the new tax law upon the counties and the cities, which suffer by the withdrawal from local assessment of so many great corporations, is not less important than that of the effect upon the state, I can touch upon it only very briefly. It had been estimated by the tax commission that separation would involve the withdrawal from local taxation of about \$335,000,000 of corporation property, and the returns for the first year indicated an actual withdrawal of \$376,000,000, or about 14 per cent. of the total assessment roll. In return for this the counties escaped a state tax rate which would have been for that year about 37 cents on \$100, amounting for all of the counties to over \$8,000,000. On the other hand, the losses by the counties of taxes on the withdrawn properties amounted to \$4,600,000, making a net saving, so far as the counties were concerned, of approximately \$3,400,000. But many of the counties proceeded to raise larger

amounts of revenue for local purposes, thereby absorbing the net saving to the taxpayers which would otherwise have been made. Cities and incorporated towns, which lost a portion of their assessment rolls, and were not compensated directly by removal of a state tax, although indirectly they were gainers, generally found it necessary to raise considerably their assessed values, in order to maintain their aggregate of receipts without too great an increase of tax rates.

Although there is local and individual dissatisfaction with the new tax law, it is a noteworthy fact that up to this time there has been no movement started for its repeal. That is the more significant because the adoption of the initiative into our political system has been followed by attempts to make a host of other changes. In quarters in which the attempts of the state board of equalization, a few years since, to equalize county assessments were attended by the greatest irritation or anger, there is an evident sense of relief due to the knowledge that the counties will be left to make their own assessments in their own way.

The one tax proposition which will be before the people at the coming election, a constitutional amendment to establish what is called "home rule in taxation," by enabling counties, cities and districts to classify property and tax or exempt it, as they may decide by popular vote, presumes the success of separation and the absence of a state ad valorem tax from this time on. It is promoted by the single taxers and is not generally favored by persons who were promoters of the present tax law, who fear that, even if meritorious in itself, it is premature to bring it forward so long as separation is still in the experimental stage.

THE RELATION OF TAXATION TO SERVICE RATES

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A somewhat careful consideration of the subject which has been assigned to me by your president has left me in some doubt as to just exactly what it is contemplated I shall talk about. I have, therefore, taken the liberty of interpreting the subject freely, and shall devote what I have to say to two general questions, namely; the underlying differences between the valuation of property for the purposes of taxation and its valuation as the basis of rate schedules, and whether, in view of the present effort to establish rates with reference to the cost of the service, taxes should be included as a part of this cost.

Until comparatively recently, there has been in this country practically no attempt made to fix, upon any scientific basis, the rates to be charged by public service corporations for the services which they render to the public. Within comparatively a few years, there has been a striking change in the situation. The public has shown a disposition to exercise its power to regulate the rates to be charged by public utilities. The existence of this power is everywhere conceded. It embraces not only public utilities, but every necessity, and had been clearly established long before its recognition by the colonists in this country when the puritans in Massachusetts regulated the price of beer, and the cavaliers in Virginia regulated the price of tobacco.

The exercise of this power, which at the outset was necessarily (whether it was exercised directly by legislatures of states, or indirectly through inferior bodies acting in their behalf) entrusted to individuals lacking in the technical knowledge and experience requisite to its proper use, obviously in-

volves grave hazards to the investments in public utilities. This has compelled the careful study of the principles which underlie the making of these rates, and soon suggested the importance of determining whether there were any limitations upon this power.

It was soon decided that the amendments to the federal constitution which guarantee to each citizen the equal protection of the laws and inhibit the taking of his property without due process of law, speaking generally, prohibit the establishment of rates which are not sufficient to afford a fair return upon the value of the property used or useful in the public service, so that in every rate inquiry three factors become of controlling importance, namely; the value of the property, what its net earnings would be under the proposed schedule of rates, and what would be a fair basis of return upon this value.

There are radical and underlying differences between the determination of the value of property for rate making purposes, and the assessment of the same property for purposes of taxation; and in the ascertainment of the net earnings of a public utility in a rate case, the operating expenses must be determined, so that the inquiry whether taxes should be included as a part of these operating expenses is perhaps legitimately suggested.

The function which the assessed value of any property performs in the scheme of taxation differs radically from the function performed by the valuation of the same property determined by an appraisal for rate making purposes, or in a proceeding to test the validity of a rate already established. The necessity for the levy of taxes is paramount because revenue is essential to the existence of the government. The vexed question, which will never be solved in such a manner as to secure even approximately equitable results in substantially all cases, is how to distribute this burden. Wherever the assessment of the value of property plays a part in any scheme of taxation, its function is to afford a basis for the equitable distribution of the charge that must be levied to support the state and its subdivisions. The essential thing is not actual value, but assessments which shall be relatively equitable. Actual value be-

comes practically immaterial if an equitable relativity of assessments can be preserved.

On the other hand, in rate cases, actual value—and without attempting a scientific definition, by this is meant roughly what property may be exchanged for in money or in something that is the equivalent of money—is an absolutely essential factor. In rate making and in proceedings to test the validity of rates, the value is the basis of the return. It is, therefore, the foundation of the entire proceeding. It is a factor that is actual and not relative. Every dollar subtracted from it depreciates the property just that much, and this depreciation will almost inevitably be permanent; that much of the property is permanently destroyed. These consequences are not in any way affected by the value which may be placed upon some other property, at the same time, for rate making, or for any other purpose. The element of relativity, which is the dominating factor in assessed valuations for purposes of taxation, is here absolutely lacking.

The importance of this element of relativity has led to the enactment of many statutes which attempt to lay down rules by which what is called the value of the property for taxation, or its assessed value, may be determined. Undoubtedly the origin of such enactments was an entirely commendable desire to, by fixing some rule, prevent unequal assessments, so as to prevent an unequal distribution of the burdens of taxation. Behind these statutes has been the relief, or perhaps it would be more accurate to say the hope, that a definition of the factors to be taken into account in determining the assessed value of property for the purposes of taxation, would lead to definiteness and certainty in these assessments.

No one can properly criticize what has actuated the enactment of such laws. The results, however, which have been attained under them have been a disappointment. This is due primarily to a failure to appreciate the fact that the determination of the value of any specific piece of property is finally a matter of judgment exercised in an effort to measure the property by something else and to determine the quantity of this other thing, whether it be money or something that stands

for money, which would be a fair exchange for the property in question. Because, fundamentally, value is a matter of judgment, and because the factors that affect one's judgment in determining the value of as simple a piece of property as even a horse are so complex that no one is able, no matter how confident he may be of the soundness of his conclusion to list these factors, or to put into an equation the weight given to each one of them, it is inherently impossible to formulate any hard and fast rule which will make the ascertainment of the value of any complex piece of property a mere mathematical computation. Some of the factors to be considered may be defined and the law may prescribe with much detail and accuracy a process to be followed, but it is beyond the power of legislative enactments to make the result in fact coincide with what is the value of the property in question.

The result of enactments of this character has been to fix as the basis for the distribution of taxes, not the value of properties of this character, but arbitrary amounts to be ascertained more or less as the results of fixed computations. That these arbitrary amounts do not in fact represent the actual value is recognized by the common practice of using some qualifying word and calling this result the assessed value or the taxable value, these expressions being used in contradistinction to the actual value of the property.

These rules are generally applied to property of a complex character, and in the very nature of things must be employed by men, holding official positions more or less temporary, and usually without the special and technical training necessary in order to arrive at an accurate estimate of value. The time which is available to them for the performance of this duty is inadequate and entirely insufficient to permit the study which is necessary to accuracy. As a consequence, frequently taxing bodies actuated by the best of motives, have given undue importance to factors prescribed by statute, have been misled as to the weight to which these various factors are entitled, and have failed to realize that their duty under the law was not to make a mere mathematical computation, but to arrive at a sound relative conclusion upon the question of value.

Properties of this kind are very frequently large properties, often extending through many states, whose legislatures, actuated by a common purpose, have adopted different means to reach this common end, and have provided for the consideration of radically different factors for this purpose. This has injected an additional element of uncertainty; and its most prominent result has been to import values for the purposes of taxation, notwithstanding the fact that such imported values are inevitably subject to taxation in other jurisdictions.

Another matter is worthy of consideration. The uncertainty which these tribunals have felt as to their own valuations of the property of public utilities has spread to the general public has created a more or less widespread feeling that these properties are not bearing their fair share of the public burdens. This, perhaps, accounts for the fact that there has been a departure from, or an addition to the valuation theory, by the enactment of a very large number of statutes imposing burdens, whether they be technically taxes or not, in the nature of occupation and franchise charges. These charges form a part of what the public utilities are compelled to pay for the privilege of transacting their business, and whatever they may technically be called, are certainly taxes in the sense that they must be taken into account with other taxes in ascertaining what will be an accurate and equitable apportionment of the public burdens.

This is a condition which cannot be other than unsatisfactory, both to the public and to the public utility. Because value is a matter of judgment, it will never be possible to establish any simple rule by which the value of the property of public utilities may be ascertained for the purposes of taxation, or for any other purpose. If this were possible, public utilities would be its most earnest advocates, because aside from matters of taxation, it would be of paramount importance in rate making and would go far toward eliminating uncertainty there.

Therefore, to remedy this defect, radical and fundamental changes in the basis for the distribution of the public burden will be required. Value will have to be abandoned, and some-

thing else substituted for it. Substitutes may readily be suggested which would remove the uncertainties which are now involved in assessments for the purposes of taxation. This, in itself, would be a great benefit because it would put an end to the continuous controversies between public utilities and taxing officers, as well as to the doubt which frequently exists in the public mind as to whether property of this class is paying the taxes which the law says it should pay. It must be remembered, however, that the ultimate purpose to be accomplished is an equal distribution of the public burden, and whether such substitutes would more nearly accomplish this end than the present practice, is perhaps, a debatable question.

The public demands that what it requires shall be furnished to it at cost, and the public utilities are, with more or less unwillingness, gradually accepting this proposition. This idea underlies every attempt to fix rates, and every attempt to test rates already established, to ascertain whether they are reasonable or not. It is held by the courts that public utilities are entitled to a fair return upon the investment. This return is in excess of operating expenses, maintenance, renewals, depreciation and reserve, and every other item which is necessary in order to carry on and develop the business as a stable investment and maintain it unimpaired. What is a fair return is in the broad sense determined by competitive conditions, or the laws of supply and demand. Money is affected by these laws just as is every other commodity. A return must be offered which is sufficient to attract to public utilities the proportion of the capital of the community which is necessary for this service. In the report of the Railroad Securities Commission transmitted by the president to congress December 11, 1911, it is said:

“We hear much about a reasonable return on capital. A reasonable return is one which under honest accounting and responsible management will attract the amount of investors’ money needed for the development of our railroad facilities. More than this is an unnecessary public burden. Less than this means a check to railroad construction and to the development of traffic. Where the investment is secure, a reasonable

return is a rate which approximates the rate of interest which prevails in other lines of industry. Where the future is uncertain the investor demands, and is justified in demanding, a chance of added profit to compensate for his risk. We cannot secure the immense amount of capital needed unless we make profits and risks commensurate. If rates are going to be reduced whenever dividends exceed current rates of interest, investors will seek other fields where the hazard is less, or the opportunity greater. In no event can we expect railroads to be developed merely to pay their owners such a return as they could have obtained by the purchase of investment securities which do not involve the hazards of construction or the rates of operation."

This statement as to railroads is equally true as to public utilities generally. Money will flow into the investments which afford it relatively the best return. In order to attract capital to public utilities their rates must be sufficient to give that capital a return which is equivalent to the return upon other capital investment in similar enterprises in the locality in question.

The tendency is toward the conclusion that the rate which will afford this return is a fair rate, that nothing less than this is a reasonable rate, and that the public utility has the right to demand nothing more. Therefore, in saying that the public demands this service at cost, I mean to be understood that the public is unwilling to pay more than the amount necessary to secure the money for the investment, maintain this investment unimpaired, and perform the service.

In passing it may be said that the public cannot secure the service for less than this. No service can be rendered for less than it cost for any considerable time without the violation of fundamental economic laws.

A part of the cost which the public must pay is the item of taxes. It may be argued with plausibility that it is simply taking money out of one pocket and putting it into another for the public to impose this charge upon the public utility in the form of taxes, and then to reimburse the public utility for this

exaction as a part of its operating expenses. This does not commend itself as sound.

While it is true that every item of expense paid by a public utility must ultimately be paid back by the public, this is not in fact taking money out of one pocket and putting it into another. I may perhaps make this more clear by using a concrete illustration. In the city of Des Moines the taxes paid by the Gas Company amount to approximately 7.22 cents for each thousand feet of gas which it manufactures and sells. This is another factor in fixing the rate and as a consequence, each consumer pays this exactly in proportion to the amount of gas furnished, that is, exactly in proportion to the benefit he derives from the service. If the rates were reduced 7.22 cents per thousand feet and the company were exempt from taxation, this loss of revenue would have to be made up out of general taxes which are levied without reference to the use of gas, and which fall upon railroads and the other public utilities, and upon non-resident property owners as well as upon the persons to whom the gas is furnished, who for this reason should pay the expense of furnishing it.

To state it generally, this theory involves the proposition that the cost of furnishing the service of a public utility should be paid, not by those who enjoy the benefits of that service, but by the public generally. If this theory were sound, there could be no good reason why it should be limited to the one item of this cost represented by taxes. Carried to its logical conclusion, it would require the public to pay all operating costs.

There is another and broader objection to this suggestion. If, as we have seen, it involves the proposition that the service shall be paid for by the public generally, not by those who enjoy its benefits, then it is a step toward socialism and toward the suppression of the individual independence that has always been an important factor in the development of this government.

Upon the general subject of taxation I wish to make what I believe to be the attitude of public service corporations generally entirely clear. Those which are managed along modern

lines have no disposition to shirk their equitable share of the public burdens, nor have they any sympathy with attempts to do this. What they desire is, in the first place, a method by which it may be possible to fix this share with reasonable certainty. They desire this because it is important to them that the public shall know that they are carrying their share of the public load, so that the prejudice which has arisen from misapprehension upon this score, may be avoided. What they next desire is that the method of fixing the amount of their taxes shall be as simple and inexpensive as possible, because every unnecessary expense which is incurred in connection with the transaction of their business is simply another indirect unnecessary burden upon the general public.

To the accomplishment of this purpose, uniformity in the tax laws of the various states is an absolute prerequisite. This is something that can best be brought about by an association such as this, which is national in its character, organized along broad lines and is entirely divorced from all special interests.

DISCUSSION—TAXATION AND SERVICE RATES

THE CHAIRMAN: Gentlemen, the discussion on this general subject is under the direction of Mr. Alfred E. Holcomb of New York.

MR. HOLCOMB: Mr. Chairman, gentlemen, and ladies, I have been trying to discover just why I was selected to preside over this august assemblage, because I am so used to being on the other side of the fence that it seems peculiar to me to stand here and preside over gentlemen, many of whom I know well, and before many of whom I have appeared under other auspices with fear and trembling. However, now that the tables are turned, it is peculiarly satisfactory to me to stand here at this time and meet you under these auspices. When you stop to think of it, it is in the highest degree proper that those who represent, in a way, corporate wealth should take part freely in discussions as to the share it should contribute towards the expenses of the government, state and local. I note some interesting statistics in an article in the *Atlantic Monthly* for July 1912, by Hon. Francis Lynde Stetson, a lawyer of the highest authority on corporate matters. He says:

“In the fiscal year 1909, according to the report of the commissioner of internal revenue, there were in the United States 262,490 corporations of all kinds, with more than \$84,000,000,000 of stock and bonds and \$3,125,000,000 of income, paying a federal tax of about \$27,000,000. For the fiscal year 1910–11 the figures had risen to 270,000 corporations with more than \$88,000,000,000 of stocks and bonds and \$3,360,000,000 of income, paying a federal tax of \$29,432,000. As the total wealth of the United States has been estimated at \$125,000,000,000, it would appear that nearly two-thirds of it is held by corporations. More than one-fifth of the tax payments were made by 32,925 corporations of New York.

“These figures proclaim in trumpet tones the public usefulness of the business corporation, but not more significantly than the following glowing words from the eloquent address of president Nicholas Murray Butler before the New York chamber of commerce on November 16, 1911:—

“ ‘I weigh my words, when I say that in my judgment the limited liability corporation is the greatest single discovery of modern times, whether you judge it by its social, by its ethical, by its industrial, or in the long run,—after we understand it and know how to use it,—by its political effects. Even steam and electricity are far less important than the limited liability corporation, and would be reduced to comparative impotence without it. Now what is this limited liability corporation? It is simply a device by which a large number of individuals may share in an undertaking without risking in that undertaking more than they voluntarily and individually assume. It substitutes coöperation on a large scale for individual, cut-throat, parochial competition. It makes possible huge economy in production and in trading. It means the steadier employment of labor at an increased wage. It means the modern provision of industrial insurance, of care for disability, old age, and widowhood. It means—and this is vital to a body like this—it means the only possible engine for carrying on international trade on a scale commensurate with modern needs and opportunities.’ ”

If therefore, two-thirds of the wealth of the country is owned by collections of individuals in corporate form, it is certainly quite proper that corporations should be represented at occasions when taxation is under discussion. As public service corporations form a large part in capitalization and importance of the total and especially as peculiar and special systems of taxation have been devised for the taxation of such corporations, it is perhaps helpful that this association should devote some definite portion of its efforts towards the discussion of the taxation of such corporations.

I thought that possibly the subject might be introduced by an attempt to reach one or two of the main points of actual difficulty which we experience in the taxation of public service corporations under the various theories which have been evolved for their taxation. When you look at the proceedings of this association you must admit that we have really covered almost all the *theory* that there is and therefore I have thought we might get to the vital points of the issue, possibly reach substantial conclusions and in that way obtain benefit. These suggestions are quite simple and may roughly be grouped under three general heads:

1. Those arising from failure to properly reach an agreement as to the objects to be sought.

I say *properly reach an agreement*, because, while possibly an agreement may be said to have been reached, that agreement has been so greatly modified by conditions, theories, differences in phraseology, uncertainty in statement and indefiniteness in administration that it can hardly be said now to constitute the original agreement which was apparently entered into.

This agreement I will assume to be that of *equality of burden*. Possibly all here would admit that the taxation of public service corporations should be founded upon the proposition that such property should bear an equal share of the public burden with other forms of property. If this be not admitted then there can be no common platform from which to discuss the subject at all.

Assuming then the acceptance of that rule, the corporations claim that it now exists in name only—that in reality, equality does not exist, that it cannot exist under present conditions and consequently strenuously maintain that they are paying far more than their share and that their taxes are greatly out of proportion to the taxes upon property, real and personal, owned by individuals.

Unfortunately there has been no real attempt to discuss this question squarely, and in fact it is difficult to discuss it owing to the disturbing elements which have intervened to prevent it, which circumstance at least gives strong color of support to the claim of the corporations. I refer to the following conditions arising in part from the vagaries of legislative enactment, in part from inefficient and untrained administrative methods, and in part from the nature of the subject itself.

For instance, the classification of property for tax purposes gives occasion for the display of arbitrary power having no definite regard for or connection with this equality of burden of which I have been speaking. The separation of the sources of state and local revenue in Pennsylvania has been mentioned. In Louisiana, by the proposition we all heard today, it is to be by constitutional enactment. Here the situation is extremely serious. Under the constitutional provisions pro-

posed in Louisiana the tax rate upon property assigned for state revenue, which includes public service corporations, is to be an arbitrary one not to exceed four per cent. and not to exceed two and one-half per cent. without the consent of three-fourths of the legislature, and the property taxed is to be assessed at full value. The property assigned as subject to assessment for purposes of local revenue is to be assessed at *any* rate of value which the particular local officers may determine and the tax rate of course will be such as the local circumstances require. In other words, any comparison of actual tax burden between the subjects of state revenue and subjects of local revenue is rendered absolutely impossible. While the owners of property subject to local taxation may control the local expenditures, not only will the owners of property subject to state taxation have no voice whatever in the control of state expenditures, but those expenditures will even be regulated by those who are not called upon to share in the payment thereof. Truly it is difficult to imagine a situation which will more absolutely prevent comparison of burden between one set of taxpayers and another.

Usually, and properly as it seems to me, uniformity between classes is provided for by some general constitutional provision containing a general safe-guard and in addition, uniformity between localities and efficiency in local assessments is secured by the creation of a central taxing board with wide powers over local assessors. The need of the latter safe-guard against unrestrained and chaotic local administration has certainly been one of the cardinal points emphasized at these conferences. This is wholly lacking in this Louisiana plan. An attempt has been made, I understand, to seek support for this movement in Louisiana by referring to a resolution¹ adopted by the conference of 1907 with regard to home rule. While it is altogether unlikely that those who voted for the adoption of that resolution intended it to cover such a loose and chaotic system as would seem bound to follow the plan proposed in Louisiana, it may be recalled to mind that in 1911 the confer-

¹ State and Local Taxation, Vol. 1, p. xix.

ence absolutely repealed its action in 1907 and directed that the resolution then adopted should be omitted from all future publications.² I mention this to illustrate the absolutely necessary departure from the idea of equality and the abandonment of any possibility of comparison of burden in such proposed forms of taxation.

Again, the increasing exemption from taxation of certain forms of personal property, such as moneys and credits, relieves private owners of such property from a burden in a way which is never thought of for public service corporations and which is even impossible of application to them under the special methods which have been devised for the assessment of their property. The "stock and bond" method, for instance, or the "net earnings" method reach a value for the *entire* property real, personal and mixed.

But more serious than all this is the effect of the numerous special taxes and burdens levied upon corporations, *in addition* to the general tax upon their property. In addition to the complete and full taxation of their entire property upon the most approved methods, we find a constant tendency to secure further revenue from public service and other corporations by the imposition of special taxes, charges and exactions. Some of these are corporation franchise taxes to be, and to do, possibly duplicated in every state in which the company does business; license taxes levied by the state and by municipalities; taxation of corporate stock (a) to the corporation, (b) to the holders; the inheritance tax; the stock transfer tax; and taxes under the police power for inspection.

Understand, gentlemen, I am not attempting to say that these various forms of taxes may not be proper taxes, and proper legislation. I only say that they go to muddle the issue, and make it impossible for anyone to tell what the public service corporations are really paying, because the subject is so complicated by the imposition of these various specially imposed taxes. Take the inheritance tax, which does not in theory, really affect a corporation as such, but which never-

² State and Local Taxation, Vol. 5, p. 26.

theless in actual practice, causes it an expense in the way of keeping accounts. It is the fashion nowadays to make the corporation really collect the inheritance tax by various provisions placed in the statute. They are obliged to keep a separate set of books, a force of clerks, and to hire lawyers to pass upon the various technical questions of succession and descent because the statute assumes to place upon the corporation the burden of interpreting the tax law. All this goes to add to the expense which is caused by the innocent inheritance tax, which while not a direct tax upon the corporation, is to all intents and purposes such a tax.

The same thing with the stock transfer tax, which is imposed, for instance, in New York. There is an enormous expense connected with the supervision of that tax.

Taxes under the police power are numerous, and are destructive of any general fiscal theory. They may be generally or locally imposed and are sustained under the general theory of the police power and are therefore claimed not to be an exercise of the taxing power but in fact they are so intermixed and intermingled with taxes imposed under the revenue power that it is difficult to tell whether a tax is a tax under the revenue power or a tax under the police power. Of course it is immaterial to the corporation but the distinction gives rise to arbitrary exactions which are sustained because not property taxes and hence not subject to the rule of equality.

The situation is described rather well by Mr. Stetson in the article above referred to, where he says:

"Now we may consider what has been, and what is, the customary attitude of the government and the public toward these voluntary instrumentalities of the trading community, which are thus recognized to have been advantageous to the public in a degree unattained by any other human agency.

"The governmental disposition shows itself *first*, and most fully, in the exercise of the taxing power. The home state, each foreign state in which the corporation does business, and the United States, all find an easy mark in the identifiable and conspicuous capital of the corporation. The home state, as

imagined creator, exacts enormous payments: (1) For the privilege of registration; (2) for the privilege of continuing existence; and (3) for the privilege of permitting the transfer of its shares by the holders thereof, or from the estates of deceased holders. The foreign state, exhibiting the spirit of comity which alone permits what in effect is the migration of the corporation, levies an entrance fee, and sometimes also an annual tax. The Federal government, concededly lacking any power of registration inherent in the creator of the state corporations, levies a tax, not upon them or their property or their income, but a tax, measured by their income, upon the privilege of doing business as corporations, such privilege existing under the laws of the several states, not of the United States.

"These taxes are over and above, and in addition to, the *ad valorem* property tax which the corporations pay just as natural persons do, save that, unlike natural persons, in the assessment of their property the corporation officers are not allowed to deduct, but often are compelled to add, the amount of their bonded indebtedness.

"A *second* important discrimination against corporations is that which takes them out of the protection of the fourth amendment and the fifth amendment to the federal constitution. These two amendments forming part of the Bill of Rights have been regarded as bulwarks of protection for natural persons. But it seems now to be the established law that in every case the creating state, and, in cases involving commerce between the states, or foreign commerce, the federal government, are free from most if not all of the prohibitions of these two guarantees of security of the people in their persons, houses, paper, and effects against unreasonable searches, and against compulsory examination as witnesses against themselves in criminal cases."

The point that I am seeking to make is, when we are speaking of the starting point, if it is equality of burden then let us have *real* equality, not *verbal* equality. Let us get together and discuss that point of whether the property of the public service corporation shall be taxed *equally* with other property

or shall be taxed arbitrarily and without regard to other property.

But it is said that it is sufficient if property is *classified* and if all members of the same class are taxed alike or equally. The suggestion is a specious one at best and cannot really find solid support. It arises doubtless from the discussions by courts which have uniformly and necessarily held that a law *may be passed* classifying property and imposing different burdens on each class; that such a law is entirely within the *power* of the state. It is submitted that no such considerations of technical validity should control the deliberations of those who are seeking to equalize the tax burdens properly and provide for real and effective tax reform. I speak of this because it constitutes a distinctly disturbing element in the solution of the question we are discussing.

Doubtless the suggestion has crept into this discussion on account of the very wide-spread feeling that certain kinds of personal property may be more effectively taxed if placed in a separate class and made subject to special levies. For this it is argued that property *in general* real and personal, may be classified and may be classified with respect to its *ownership*. The conclusion by no means follows and should not be allowed to receive the support of those who are seeking a solution for present difficulties in the taxation of public service corporations.

An examination of the preambles^a of the resolution adopted by this association in 1907 on Constitutional Restraints will show that what we had in mind then was to provide against the necessity of applying the same *methods* in the taxation of all kinds of property. The resolution itself does not really seem to follow the preamble, due doubtless to the haste of its preparation.

2. The next set of difficulties are connected with the *method* of taxation of these corporations, and it is to this point that most of the discussion at previous conferences has been devoted. We have had advocates of the ad valorem system, and of the specific system. For myself I fail to see the immense

^a State and Local Taxation, Vol. 1, p. xviii.

importance of the particular *method* employed to secure the revenue so long as the idea of *equality* is retained as a cardinal principle. The only suggestion I have would be to emphasize what seems to me to be the great waste of time and money involved in the attempt *unsuccessful* usually, to reach a *valuation* for these properties. If it be conceded that, after all, in these properties, value is dependent upon earning power, it would seem to me that some fairly satisfactory system may be devised which bases the tax upon, or with respect to, the earnings themselves.

Here I would like to direct attention to an important contribution recently made to the subject of the valuation of public service property, namely, the opinion of chairman Stevens of the Public Service Commission of New York, Second District, rendered April 24th, 1912, in a proceeding entitled "In the matter of the application of the Westchester Street Railway Company for authorization to issue capital stock." The whole opinion is well worth reading by those interested in the vital underlying considerations involved in the valuation theory of property of public service corporations. A few extracts will serve to illustrate the fundamental character of the discussion and the trend of the conclusions reached. He says:

"An inquiry into the value of the railroad property as a whole is an investigation of the question how much will any person or collection of persons desire to possess the property, and how much money or other things will they be willing to part with for the sake of such possession. The difficulty attending the investigation is: (1) the property has never been, we will assume, bought or sold, so that there is no direct test or evidence of its ratio of exchange for money or other things; (2) it is not one of a class of things which are bought or sold with such frequency or under such circumstances as to afford a fair test of what it would be likely to bring upon exchange or sale.

"In short, no direct evidence is obtainable concerning its probable ratio of exchange. The only course open to the investigator is to select those qualities or attributes which in his judgment would create a desire for the property, and then estimate how much that desire would induce a prospective purchaser to surrender for its satisfaction."

* * * * *

"It is not a thing which one desires to have for its own sake, like a work of art. It is without any attraction in itself. Its one characteristic which gives it value is its supposed power to yield, directly or indirectly, a money return equal to the investment with a profit thereon. Its value lies, not in what it is but in what it will produce or what is believed it will produce in money. This is the essential proposition upon which all depends.

"Generally speaking, what it will produce in money depends upon its earning power, direct or indirect. To the ordinary investor it is its direct earning power as shown by the excess of its revenues over its expenses. To another road it may be indirect by furnishing business upon which a profit can be made, or by the suppression of a destructive competition."

* * * * *

"It is unnecessary to pursue this discussion further. In cases where the sole attraction of a property which gives it exchange value, or in other words creates a desire for its ownership, is pecuniary gain, the measure of the desire and hence of the ratio of exchange is clearly the amount of gain which it is believed can be realized. This fundamental consideration indicates that the net earnings rule of valuation, when properly and carefully applied with due regard to all the features of the individual case, is probably the one having the surest support of basic principle. It is also the one which accords with the practice of shrewd, broad minded, successful men of business."

The conclusions are that the desire for gain is the main test of selling power or value, that therefore earning power constitutes a very important element in determining value. My observation is that, as things go in actual practice, under the necessary limitations of an annual assessment somewhat hurriedly made, earnings constitute a sufficiently reliable guide for the purpose of taxation. I would therefore eliminate the unnecessary, clumsy, unsatisfactory and very frequently, useless attempts at a valuation and use the earnings themselves in devising a taxing system for public service corporations.⁴

3. The third difficulty is with respect to the distribution, and that I suspect is a difficulty which appeals to the admin-

⁴ The bearing of this will be readily seen from a study of the California plan explained in detail in the report of the 1906 commission, p. 93.

istrator with especial force. I am led to refer here to a book which I have read with a great deal of interest, by Professor Brindley,—his work on the History of Taxation in Iowa. It gave me a splendid idea of the difficulties inherent in the Iowa situation and his remarks apply equally to other states. I gather from Professor Brindley that the chief difficulty in Iowa is with the distribution of railroad taxes between the various municipalities in the state, and I suspect that the same stumbling block exists everywhere, because, so far as my experience goes, there is always that difficulty—the terminal proposition, and the valuation of the property in the sparsely settled communities. Professor Brindley states and claims that as the municipalities contribute to the earning power and consequent value of the railroads in proportion to their wealth and population, it is not fair to the localities where wealth and population are greatest to deprive them of that advantage. It occurs to me to suggest that the tax from railroads and other state-wide properties might, with a considerable degree of substantial justice, be pro-rated among the localities of the state in proportion to the assessed value of such localities, or possibly on a mean between that and the population. It occurred to me as I read your book, professor, that that would accomplish the very thing that you are seeking. I don't know, I should like to see it tried, at least to see what it would do. We would get away for instance, from a great deal of difficulty with the valuation of terminals if you disregard the whole idea of the difference in valuation between various portions of a railroad system, find the *total* valuation, and compute the *total* tax, say at the average rate applied to an equalized valuation as in Wisconsin and then prorate this total *tax* among the various municipalities on the basis of the assessed valuation of their other property, or possibly take a mean between that and the population.

It should also be noted here that there is an enormous expense imposed upon these corporations through the need of keeping their statistics of plant according to subdivisions of a state. This expense can probably hardly be appreciated by those not directly engaged in the work, but it may be confi-

dently stated to be real and to be an expense that could be easily dispensed with under any system. The method of pro-rate of *taxes* for instance, above suggested would eliminate it. Whatever of expense is caused by the intricacies of the law and the administrative details, must of necessity go to swell the total tax expense of the corporation and thus contribute to the prevention of that true comparison of burden which has been stated above to be of prime importance.

These three observations are the only ones I care to make this evening, because I want to say that this year we have attempted to secure a wider degree of discussion. It would be of great advantage if we could really get some effective discussion, not discussion as to theories possibly so much as actual discussion as to the practical administration of laws. Now I don't know of any one that is more competent to discuss this subject than our friend Mr. Crandon of Illinois. We shall all be very glad to hear from him, I am sure.

MR. FRANK P. CRANDON (Illinois): The paper by Mr. Guernsey from Iowa, or his discussion of the subject, was admirable and exhaustive. It only needed Mr. Holcomb's addition to make it about perfect. There are two features of his discussion which I shall refer to very briefly. One is the question of equality. It goes without saying that any tax, in order to receive the consent and approval of the people and the taxpayers, must be based upon an equality of burden.

I was astonished to hear today that this theory of equal burden and uniformity of taxation had been discarded; that in some states constitutional provisions are being entertained, or have been adopted to enable the state to disregard the standard of equality. I was more astonished to hear that the basis for that provision had been found in the discussions and deliberations of this body. I have been a member of the National Tax Association since its foundation, and I never heard till today that it entertained any such proposition; and I don't know now that any one connected with it has ever previously presented the proposition for its consideration.

No tax is worthy of being considered that is not based on the theory of equality of burden, and whether that tax shall

be applied to a public service corporation or to a manufacturing corporation or to an individual, its only fundamental justification is that it aims at equality of burden. Just how this equality of burden is to be secured is often an exceedingly difficult matter to determine. Perhaps it never is exactly so distributed. But that it should be the aim of every tax burden that is imposed is equally apparent.

Mr. Guernsey spoke about the desirability of having the tax burden definitely fixed, not constantly being subject to the vagaries of necessity or of administration, or of possible unusual conditions. I agree with that. I think that it is an exceedingly important element in the administration of the tax power that its burden should be learned definitely and ascertained without very much of scientific adjustment or scientific considerations.

There is no method that I know of that is comparable to the tax determined by gross earnings, as Mr. Holcomb has suggested. No property is worth more than what it will earn. What ever may be the sub-stratum of determining value, the value which is given to any property is determined by its earning power. Now let us ascertain what is the fair average of taxation as imposed generally, and find out as nearly as we can just what proportion of the earning power of the general property is paid in taxes, and let us levy upon all these corporations such percentage of the gross earnings as will represent the ordinary, usual and equitable taxes paid by the people. That is easily imposed; it is easily determined; it is easily collected; it applies equally to all classes of corporations; and it should be in lieu of all other kinds of taxes.

I want, before I sit down, to say one thing more. I don't agree at all with your theory of Professor Brindley's book. I have not seen the book—

MR. HOLCOMB: I did not attempt to give his theory.

MR. CRANDON: If your statement properly represents it, then I don't believe in it a bit.

MR. HOLCOMB: It doesn't, Mr. Crandon.

MR. CRANDON: A distribution on the theory that you sug-

gest is impossible, and if it was possible it would be inequitable.

MR. HOLCOMB: I am very glad to have you say that. I want to have an absolutely frank expression. I want to absolve Professor Brindley. It was my idea. We would like to hear from Professor Brindley.

PROFESSOR BRINDLEY: I am on the program for Thursday morning, and so will take up but a moment's time. I agree with both Mr. Holcomb and Mr. Crandon that the fundamental basis of taxation should be equality of burden, whether that is realized through a system of so-called ad valorem taxation or the gross receipts plan, or some other method. In this connection the supreme court of Iowa has recently held in two leading cases^{*} that the property of corporations organized for pecuniary profit and taxable on an ad valorem basis shall bear the same fiscal burden and the revenue collected therefrom shall be used for the same purposes as that levied against the property of individuals.

MR. HOLCOMB: I want to emphasize once more that probably if we would all agree on uniformity, we would all agree with that court decision. The point is that they are only talking of that particular law, namely, the ad valorem law. That does not raise the point I raised, and that is these other multitudinous taxes that were not involved in the decision. They are not taxes within the sense of that decision, but they constitute taxes on the corporation and they affect its total tax burden, so that in considering equality in its broad sense, and the only sense we can ever get together on if we are going to get together, you must consider all taxes and place your tax accordingly—a single tax if possible—and when you are imposing these other taxes, you must consider the total burden. I wish we could hear from somebody that didn't think there was but one side to this.

MR. THOMAS W. HULME (Pennsylvania): The evident desire is to assess a corporation by the simplest method. The suggestion has been made that this is accomplished by a specific tax, i.e., a certain rate upon a gross or net receipt, which rate

^{*} 109 Ia. 585; 123 Ia. 594.

must be such as would produce equality. Now, the thought in my mind is, how do you know when you have reached equality? You have no measure at this time for determining. You have generally applied to all corporations a system of ad valorem taxation. In some of the states which have given it the most advanced thought, there is to-day a system of determining valuations by competent engineers or others with specific knowledge of the class of property involved. Therefore, you have approximately full or true value. To that is applied an arbitrary rate or a rate which is said to be the average of all the other rates in the state. You have what, I think, is the fundamental weakness of the situation and one that must be determined before you can go to a specific tax, the lack of true and correct administration in your present tax law; that is, you have one standard applied to the valuation of corporation property and another standard and method applied to the taxation of all other property, which is admittedly not up to the first standard. Until you bring the administration of your existing tax laws up to the point where you can determine what is the true rate of taxation in your state, i.e., what would be the true rate if all your property was fairly and truly valued, you cannot determine where equality rests, and, therefore, you cannot determine what would be the correct arbitrary rate to apply under a specific form of taxation.

The administration of the tax law is a difficult thing if it is in the hands of inexperienced parties. It is not a difficult thing if it is in the hands of experienced men; and the experience of my own uppermost in my mind in making that statement grows out of the construction of the tunnel railroad of the Pennsylvania Railroad Company into the city of New York, six miles of tunnel and four miles of railroad, involving an expenditure of almost a hundred millions of dollars. Of the seven miles in the state of New York, three were assessed by the state tax board and the balance by the tax authorities of the city of New York. I am pleased to say, to the credit of the city and especially to Mr. Purdy, that those assessments aggregating \$64,000,000 were settled without a single legal contest, and in a space of four months. The neighbors of New

York city across the Hudson river are not at all behind New York city in their ability to administer the tax law. The railroads of New Jersey have, for a period of over twenty-five years, been taxed on an ad valorem basis by a state board. Some question arose in the last two or three years as to whether that law had been fully and properly administered and whether, during the lapse of time, some portions of the railroad property might not have escaped or might not have been fully valued. A revaluation of the railroads of the state has just been completed under the direction of Mr. Hansel. The railroad appeals have been heard and, out of over several hundred corporations, it has all been settled without litigation, with the exception of one corporation.

Now, I say to you that, in my judgment, you cannot get away from your existing laws and adopt another basis until you bring your administration under those laws to a full and equal basis as applied to all classes of property.

Last year, in leaving Richmond, Va., I was asked by one of the Iowa commissioners whether I was willing to answer a question he had asked in open meeting, which was the best method of tax administration, an elective assessor or one appointed? In my judgment, there is no doubt about the question, the business of government certainly starts with the levying of taxes and afterwards comes the proper expenditure. I don't think you can hold any governing body correctly accountable unless you place in the hands of that governing body the full machinery for levying the taxes as well as the expenditure of them.

MR. J. H. McCONLOGUE (Iowa): I am interested in the address of Mr. Guernsey. From the tone of his paper I conclude that he and I are getting close together on these questions, although in years gone by we seemed somewhat a part. I gather from his remarks that he now concedes that the people have a right to demand of a public service corporation, a service at cost, that cost of course to include a fair per cent. on the capital necessary to develop and maintain the company. He stated that taxation upon these corporations imposes an additional tax upon the people. In a measure that is true. As he advanced

his idea on this proposition the thought came to me that public service corporations, for the purpose of distributing the burdens of taxation should be divided into two classes.

The tax upon public service corporations that furnish services or commodities to local consumers is of course an additional tax upon the local individuals receiving these services and commodities. To illustrate: A gas or water or heating company furnishing its services to a local community is in a measure, when taxed by that community, merely taking the money from one pocket and putting it into another.

The other class of public service corporations are interstate in their character. Such corporations gather their income and funds not entirely from the locality from which they operate, but gather it from all over the world.

The weary New Zealander passing through Iowa, and gazing upon her magnificent crops and beautiful farms pays into the coffers of the railroad companies for the privilege of riding through our beautiful state. People from Europe and other parts of the world, and of this nation using telephone and telegraph service augment the exchequers of these companies. The same is true of the citizen of this state extending their privilege in the use of this corporation into other states and other nations. Taxes upon the latter class of corporations, therefore, are not burdens upon the local community. The thought came to me as Mr. Guernsey developed his idea that some legislation might be had whereby a distinction might be made, and a difference in the way of distributing such taxation on these two kinds of public service corporations.

It may become necessary so to do though in Iowa we should be obliged to amend the constitution.

MR. CHAS. J. TOBIN (New York): I would like to ask of the last speaker, whether he would put the rate for these big companies he speaks about higher than for the companies serving local people, whether he would make the rate for the big companies higher?

MR. McCONLOGUE: I am not in a situation to give an opinion. I was just asking a question.

MR. TOBIN: I simply want to say that I think it would be

an injustice to tax an enterprise in that way, as it might keep the big companies from coming into the state if they were taxed on a different basis than the other companies locally. It would tend, as I see it, to keep the big corporations like the trunk lines, either railroad or telephone or telegraph lines, from coming into the state, and it is my notion that it might work out to the disadvantage of the state if they placed a great difference in the rate of taxation to such classes.

MR. HOLCOMB: I did not think his observation had anything to do with the amount of the tax. It was rather distribution, as I understood Mr. McConlogue. It did not involve any necessary difference in the burden.

MR. A. C. RIPLEY (Iowa): I would like to ask a question. Two or three of the speakers upon this question have made the statement, if I understood them correctly, that the proper basis of taxation should be a relative or correct distribution of the burden. Now I assume that they meant a comparison between corporate property and the property of individuals. Now it has also been suggested that the better way to tax corporate property perhaps would be upon the income basis and not upon the physical valuation. What is bothering me and what I would like to have some man explain to me is the basis of comparison whereby you might arrive at the proper burden when fixing the taxes upon an earning capacity or income in one case and upon intrinsic worth in the other. What would be the basis, the relative value upon which that might be determined?

MR. HOLCOMB: Are you in a position to answer that?

PROF. JOHN E. BRINDLEY (Iowa): I was going to say, Mr. Chairman, that the same thing has been bothering me for four or five years. If you place a tax on public service corporations on the basis of gross earnings, and then levy the tax on farm lands and town lots, and manufacturing and producing corporations, and other forms of property, on an ad valorem basis, and then assume as your ideal equality of the public burden, how are you going to realize it? Now I am free to say that if you are to judge the question purely from the standpoint of producing revenue, and from no other standpoint, then the

gross earnings tax is an easy way of getting revenue from a telephone company or a telegraph company or a railroad company. Take for example the experience of Minnesota. I don't remember what the first law provided, whether the rate was two per cent. or three.

MR. FRANK P. CRANDON (Illinois): Three.

PROFESSOR BRINDLEY: And if I am not mistaken that was in force for some years. It was screwed up to four per cent. by the legislature of Minnesota, and some years later up to five per cent. where I think it stands at the present time. Now the question is, whether the railroads on the basis of this five per cent. tax on their gross earnings, are paying more or less than their fair share of the burden of taxation in Minnesota? We all agree on the fundamental idea of equality. That is an easy thing to say. But where you levy one tax, just as Mr. Ripley says, on the basis of gross earnings, and the other on an ad valorem basis, it has always seemed to me that it would be difficult indeed to arrive at anything approaching a very reasonable solution of that question. Personally I am in favor of the ad valorem system of taxation here in Iowa under present conditions, having in mind the history of taxation in Iowa and the legislation that has been on our statute books from time to time during the last fifty or sixty years. But more than that, I am in favor of the ad valorem system of taxation as applied to public service corporations, simply because I believe that these corporations are entitled to the same justice as any other class of taxpayers, and ought to receive it. While you cannot hope to secure absolute equality of taxation, I believe it is possible to approach this ideal more nearly through an ad valorem system of taxation, intelligently administered by a tax commission, than it is through an arbitrary fixed rate on gross or net earnings.

MR. RIPLEY: Professor Brindley begs the question. I think I made it plain. There have been statements made here by gentlemen who have spoken upon the question, that the practical and the proper thing to do was to tax public service corporations upon a gross income basis. Now while it has not been asserted, I assume that those same gentlemen understand

and would claim that the proper way of assessing general property in the hands of private individuals would be as it is done now generally, on an ad valorem basis. Now what I want to know from some man who claims that that is the proper way to do it, how he arrives at the just burden, the equal burden between those two classes of property and two owners, to get at the burden.

MR. HOLCOMB: I suppose that is up to me, gentlemen. I am the man who introduced the suggestion about gross earnings here tonight. I want to tell you that my position is based on an exact disagreement with Professor Brindley in his statement that you can come nearer to what is right by the ad valorem basis than you can by the gross earnings basis. I claim that you can come nearer by the gross earnings basis to what is fair than you can by the elaborate valuation basis. Of course, professor, my assumption is always, and everybody else's assumption ought to be, that on the gross earnings basis you really are reaching an ad valorem value, but you are reaching it by a method that is quicker and just as good. In other words, it is not that we have a new system, but we are reaching value by reference to something that measures that value easily. Do I make myself clear? I want to just go a little further and say that in most utilities, in most established and permanent utilities, there is a well-known, fixed ratio between capital and earnings. Anybody in the public service business can tell you at a glance what the ordinary average rate of profit, of gross profit, of gross income and of net income, is to investment. So with that formula you can reach substantially accurate results. But I want to ask Mr. Ripley if he has seen Professor Plehn's paper in volume 1 of the proceedings which is a brief summary of the more extended discussion of the same subject contained in the report of the California commission of 1906. I think it may be of interest to him to read that, because that develops the idea that in reality you can reach value by the application of certain units that are well-known in any industry, whether railroad or telephone or telegraph or anything else. There is a well-known established ratio of gross income and net income to capital. Therefore you can reach values by a

ratio. That is all. I don't attempt to say that it is exact. I only say that it is more exact than a plan which involves an impossibility, namely, the valuation of the terminals of a railroad. I say it is folly to waste time with the system. Now I am directly opposed to Mr. Hansel, who is waiting to say that he has done it and can do it.

PROFESSOR BRINDLEY: Mr. Chairman, am I correct or incorrect in stating that the Minnesota commission did undertake something approaching that? I don't know just how thoroughly they did endeavor to arrive at the true valuation of railroad property, but I believe that question came up as to whether or not the five per cent. rate on gross earnings represented relatively more or relatively less than their just share of the public burden. I think the railroads in Minnesota contended that it represented more.

MR. HOLCOMB: Your question was how they can do it. I don't know. I don't know what Minnesota did. I know what California did. They did it by the application of those relative average units. You have got to do it. I admit that. You can't say that the gross earnings system is the answer to a problem as complex as this. You have got to have in your mind all the time that you are comparing it with the ad valorem system. The only point I am urging is that it is the quickest way of getting a substantially accurate result for all practical purposes.

MR. A. S. DUDLEY (Wisconsin): Gentlemen, one who comes in personal contact with many of the state boards will be impressed with the idea that ad valorem taxation of railroads is not, at least in practice, a very scientific system. The assessment of railroads in most states is by an ex officio body, composed usually of state officials who give to the work such brief attention that a scientific assessment never results.

The justification of the gross earnings tax must lie in the fact that the rate applied to such earnings will produce practically what ought to be produced under a properly administered ad valorem system. As earnings increase from year to year, the taxes also automatically increase from year to year; and yet it may be well from time to time to make a thorough

revaluation of the property for the purpose of making any revision of the rate that such revaluation may show necessary in order to maintain the earnings tax as the fair equivalent of ad valorem taxation of property of the same value. There are practical difficulties in the way of a thorough annual valuation, which are not involved in an annual tax on earnings; this, and its simplicity and accuracy of administration strongly commend the gross earnings method.

But while we speak of ad valorem taxation of railroad property and ad valorem taxation of general property, the method applied to reach value is so different for the two classes that, if this fact is overlooked, a very inequitable distribution of the tax burden between the two classes of property may result. The comparative efficiency of the methods employed in reaching value should be considered.

From various utterances heard to-day it appears that some delegates to this convention favor the discontinuance of "uniformity" as a principle in taxation. On the ground of expediency it might be urged that the uniformity principle should not prevent a lower rate for intangible personalty than for real estate. But should the principle of uniformity be abandoned, generally, in taxation, it would invite the most pernicious class distinctions in legislation. Railroads are to-day the object of a good deal of agitation that is more or less socialistic. They are being regulated as they never were before. Regulation that results in curtailment of profits is to that extent destructive of property in the owner, and if this regulation is supplemented by an abandonment of the protection of uniformity in taxation thereby permitting railroad property to be taxed without any regard to its relative tax burden when compared with the burden on general property—under such conditions I can conceive a time might come when the nominal owners of the property would be merest trustees of title, and the real beneficial ownership would be absorbed by the government or the people.

MR. JOHN J. WALSH (Connecticut): After all, doesn't this question of the difficulty of taxation as applied to public utilities of the same character, eventually get down to the fact

that there are so many jurisdictions exercising their rights over the same property, with so many different opinions, methods and styles; doesn't it after all resolve itself down to that fundamental reason? And if it does, and this is a national association, isn't it up to this association to suggest some uniform method, which will carry out the idea, which each of those jurisdictions is effectually endeavoring to put into effect? Doesn't everybody here who knows anything at all about the formation of our government, know that in the early days, and in many cases in the East up till a few years past, the same differences prevailed in regard to the fixing of value of the individual property? One town fixed it at one rate and another town right over the border at another rate, and for various reasons, until the time came when it was found necessary that there should be a uniformity of administration in that particular in regard to the land values, and the tendency has been in the past years, and is growing greater at the present time, for the state, one central body, to exercise jurisdiction over that property and see that there is a uniform system of taxation fixed.

That has been the logical growth of our commercial life. The situation is exactly similar in regard to the states, with our interstate commerce with railroads, telephone, telegraph and other transportation companies. What is going to be the logical outcome of it? Are you ever going to get at it by an effort of this association to convince every state that each of them should make laws alike? Isn't the diversity of opinion among those various jurisdictions too great? They have already committed themselves to certain systems, that won't be able to change. How are you going to get at it? On the assumption that men are honest, why not furnish them with a system, whereby they may put into effect their honest opinions. Isn't that the only object of a system of government anyhow? Is there any other system in the hands of the American people to-day, or the people of the United States, except the federal government? The tendency on the part of the federal government, as everybody knows, is to take charge of those affairs as far as is consistent with the political sovereignty of

the states. This is not a political question. This is a revenue, an administrative question, a business proposition pure and simple. Would it be such a new thing for the government of the United States to collect taxes on those corporations doing interstate business and transfer it to the states? They did it originally. That is, they took the lands which the states claimed into their charge, and transacted the business for the states, and sold them—I don't know but that Iowa is a part of it—and they paid the money over, the greater part of it at least, to the states that claimed to own those lands.

Aren't we bound to come to it sooner or later? If we are intelligent, logical people, isn't it the duty of a national body of this character, whether by amendments to our federal constitution or by whatever means or methods may be adopted, to institute some central body that shall tax those interstate public utility corporations, or public utilities, uniformly, whether it be on a basis of an *ad valorem* assessment or one arrived at by the gross earnings or otherwise? If they are honest they will find an honest means and method if the system is furnished for them. I merely make this suggestion to the association.

MR. CHARLES V. GALLOWAY (Oregon): Mr. Chairman, I quote from memory that President Hadley of Yale once wrote something to this effect, "that a tax which aims to be equal but is ineffectual, produces a kind of inequality, tending to increase as time goes on, and worse than all other kinds; but that a tax which aims to be effective, even in apparent disregard of equality, tends by constant process of economic adjustment to be more and more equal." (Applause.)

They say you cannot value a railroad in the same manner that you value land. Neither can you value all classes of land in the same manner. In Oregon a quarter section of timber land held for speculation and producing no income, may be worth as much as the best productive farm of similar area. Are they in the same class? Are live stock and merchandise in the same class? Can all these and many more classes of property be valued by the same rule?

It seems that we are getting mixed. We talk about equal-

ity of assessment and equality of taxation. Are the gentlemen arguing for the general property tax system, which we have repeatedly condemned? Is that what they mean when they say that we should have equality of burden on all classes of property? If so, then all this activity for the removal of constitutional restrictions that property may be classified for taxation is mere nonsense.

No; I believe that classification of property is essential to fair and equitable taxation, for it is only through classification that an effective system can be devised. Upon all members and items of each taxable class an equal and proportionate burden should be placed. Different methods in taxing different classes of property and persons are not inconsistent with fundamental principles of equality in taxation, so long as they do not provide unwarranted discriminations. If we can once secure fairness of taxation within each class, all moderate and reasonable differences between classes will soon be absorbed by the process of economic adjustment. (Applause.)

MR. HOLCOMB: I cannot help but go on with Professor Hadley, as Mr. Galloway did with the story about the little girl's prayer this morning. If he went on he would say that Professor Hadley finishes up that quotation with this statement, "but the superior certainty of the tax on gross earnings outweighs its theoretical disadvantages."^{*}

MR. HULME: I understand you are not advocating any specific kind of tax.

MR. GALLOWAY: No; I am speaking only as to general principles. I secured that quotation from Hadley several years ago, and not from the pamphlet Mr. Holcomb has before him.

MR. CRANDON: Professor Brindley thinks that on an ad valorem system he is going to equalize the burden of taxation so that each subdivision will be entitled to and will receive a proper apportionment of the value of the railroads. If he or any other man thinks he can come within a million dollars of determining the value of a railroad across Iowa he is greatly mistaken. Even the question of determining the physical

^{*} Hadley's *Economics*, pp. 450-456.

value of the railroads in Wisconsin by experts that cost the railroads an exceedingly large sum of money resulted in a finding of the Northwestern Railway properties in Wisconsin by the state at sixty-two millions of dollars, while by an equally competent board of investigators and valuers it was found to be worth about fifty millions. Now if the expert men cannot come within twelve millions of dollars in the sum of sixty-two in determining the value of a railroad, how is a tax commission or executive committee, or any other such body as that, going to determine with any sort of accuracy the value of a railroad? There is but one agency in the world that can determine the value of a railroad in that way, and that is Divine Wisdom.

MR. HOLCOMB: Anybody that wishes, may submit resolutions to the committee on these matters. It will help out, I think. It is now late and we will adjourn until tomorrow morning at 10 o'clock.

FOURTH SESSION

Wednesday Morning, September 4, 1912

Chairman, LAWSON PURDY, New York

Program

1. **UNIFORM RULE AND TAX LIMIT LEGISLATION IN OHIO.**
R. M. Ditty, Chairman Ohio State Board of Tax Commissioners, Columbus, Ohio (read by J. H. McConlogue).
2. **DISCUSSION.**
3. **TWO YEARS' EXPERIENCE IN MINNESOTA WITH THE THREE MILL TAX ON MONEY AND CREDITS.**
J. G. Arnson, Member Minnesota Tax Commission, St. Paul, Minn.
4. **DISCUSSION.**
5. **THE NEW YORK "SECURED DEBTS" LAW.**
Edward L. Heydecker, Assistant Tax Commissioner New York City; Sec'y State Conference on Taxation.
6. **TAX LEGISLATION OF 1912 IN THE STATE OF RHODE ISLAND.**
Z. W. Bliss, Chairman Rhode Island Board of Tax Commissioners, Providence, R. I.

UNIFORM RULE AND TAX LIMIT LEGISLATION IN OHIO

By R. M. DITTEY

Chairman of Ohio State Board of Tax Commissioners

(Read by J. H. McConlogue.)

When the letter of Mr. Pleydell was received, inviting me to address this conference on the general subject of "Uniform Rule and Tax Limit Legislation in Ohio," I agreed to accept upon an understanding had with Mr. Foote that if I found it impossible to attend in person, a copy of such address as I might prepare would be furnished him, he promising to have some one deliver it for me.

The legislature of the state has very kindly authorized the members of the tax commission to attend conferences of this kind and has provided funds for their expenses incurred in so doing, but, unfortunately, it has so laid out the commission's work that its members have been unable to attend the annual meetings in the past, and I regret to say that I can not be present at this time, and am therefore forced to rely upon the good offices of Mr. Foote in the matter of presenting what I have to say upon the subject assigned me. In doing so I must crave the indulgence of those present, for had it not been for the statement of Mr. Foote that I had been invited to deliver an address upon the subject named because I was "the only intelligent man he knew that approved the uniform rule," I would not for a moment have thought of imposing upon you. As the sole representative of this hopeless minority certainly anything I could say would not be of importance, but, like Dr. Johnson's parrot, it might be interesting, on the ground that I could say anything at all on the subject. Mr. Foote's statement may be true in other states, but in my state he belongs to the "noisy minority."

The fourth constitutional convention of Ohio finally adjourned on August 26th of this year, although in fact it had completed its labors on June 6th, after being in continuous session for five months. The legislation calling for a convention to alter, revise or amend the present constitution of the state was secured mainly through the efforts of those desiring an amendment to permit the licensing of saloons, those favoring the incorporation in the constitution of an initiative and referendum provision, and those who desired the classification of property for taxation, or, to state it differently, by those who opposed the present uniform rule provision. All these elements were active in the selection and election of its members, with such success that when the convention met they controlled it by a very large majority. The convention was organized by the selection, for its presiding officer, of the principal exponent in this country at the present time of the theories of Henry George, as well as the recognized leader of those favoring the initiative and referendum in Ohio. The committees were selected with reference to their views upon these questions. The committee on taxation was composed of twenty-one members, of whom at the time of its selection, but six favored the retention of the present uniform rule. The chairman was an ardent single taxer, one of the best equipped parliamentarians of the convention, a very forceful debater, and possessed of great mental activity.

This committee was the last of the important committees to report, and when it did so was so evenly divided that the opponents of the uniform rule controlled by a single vote. Being unable, however, to secure a majority of the committee in favor of classification, they were forced to report a local option provision as a compromise measure. The debate was long and bitter, extending over a period of more than two weeks. The majority proposal was defeated and a substitute proposal providing for classification was defeated by a vote of sixty-three to thirty-three, while by a vote of seventy-seven to thirty-one the convention decided to retain the provision of the present constitution, with an additional provision for tax-

ing state, county, municipal and other public bonds hereafter issued. (Such securities are at present exempted from taxation under an amendment to the constitution adopted in 1905 by means of a piece of trick legislation.) In the contest before the convention the single taxers and classifiers joined hands in opposition to those favoring the present uniform rule, and as the votes show were overwhelmingly defeated upon every question. If the amendment adopted should be defeated at the election to be held the third of this month, the only effect will be to continue the present uniform provision as well as the one exempting public bonds from taxation.

The convention submitted forty-two proposals, each one to be voted upon separately. Among these is one providing for the initiative and referendum, which if adopted, as appears probable, will be quickly resorted to for the resubmission of the tax amendment should it be defeated.

As indicative of the temper of this convention upon the question of the preservation of the uniform rule in taxation attention is directed to the following clause contained in the initiative and referendum amendment, to wit:

“The powers defined herein as the ‘initiative’ and ‘referendum’ shall not be used to pass a law authorizing any classification of property for the purpose of levying different rates of taxation thereon or of authorizing the levy of any single tax on land or land values or land sites at a higher rate or by a different rule than is or may be applied to improvements thereon or to personal property.”

Many persons appeared before the convention representing interests opposed to the uniform rule clause, and every legitimate effort possible was made to influence the convention to change it. No one appeared in support of its retention except myself, and then only in response to a resolution requesting it. In doing so I stated to the convention that I was induced to accept its invitation to appear before it for the reason I felt its members were entitled to the benefit of whatever experience and knowledge I had acquired as an official of the state engaged for a year and a half in the administration of its tax laws; that as the result of a diligent and earnest study of these laws, their history, the policy of the state as outlined

in the present constitution, and the decisions of the courts, I had reached, honestly and conscientiously certain conclusions and convictions, which I would not hesitate to state, not however, for the purpose of combating or refuting different conclusions reached or entertained by others, but solely in order that they might have the benefit for good or ill of the labors of a servant of the public engaged upon that important subject of taxation by which the money requisite and necessary for the public expense must be obtained; that because taxation is as absolutely essential to the existence of government as government is essential to the existence and preservation of property, the members of the convention should have but one object in view, viz: to formulate and present to the voters of the state as nearly a correct and perfect constitution as lay within their power, and that in whatever they did they should have but one idea, one design—to make the burden of taxation rest equally on all.

That I did not appear before them as an advocate of any interest or any class, but would endeavor to state frankly my opinions and the conclusions I had reached as the result of my experience; that I did not set myself up as a "Sir Oracle," and whatever I might say was not the last word on the subject, for the process of thought through which every thinking man travels to reach conclusions, depends upon so many things, so many confusing facts and ideas, there are but few men in this world so inspired with the light of reason, clearness of conception and truthfulness of judgment as to arrive at conclusions which are absolutely certain even in their own minds, but in reaching my conclusions I had endeavored to consider the whole subject from an entirely impartial standpoint.

The state of Ohio more than seventy-five years ago, adopted the policy of taxing all property by a uniform rule at its true value in money, and from what I have already said, it is apparent that there is no intention, either present or prospective, of changing the system.

Under the unrestricted grant of legislative power conferred upon it by the first constitution of the state, the general assem-

bly had provided an irregular and artificial system of taxation. The true principles of taxation were grossly disregarded, and heavy burdens were imposed upon some species of property, while others were exempted entirely. These evils and abuses of the taxing power had become so unbearable that it was determined to inaugurate a new scheme of taxation, and adopt as the permanent policy of the state the uniform rule of taxing all property at the same rate. This legislation worked so well and met with such cordial approval by the people that, in 1851 the constitutional convention incorporated the principle in the new instrument, since known as the constitution of 1851.

In section 2 of article 12 of that instrument was incorporated what our people believe to be the true principle of property taxation. It provides that "Laws shall be passed taxing by a uniform rule all moneys, credits, investments in bonds, stocks, joint stock companies, or otherwise; and also all real and personal property according to its true value in money." By that provision its framers intended that property—property without any reference to the relation of the owner to the property—should be the basis of taxation and that the rate should be uniform throughout the taxing district.

Numerous efforts have been made to change this rule by constitutional amendment none of which has been successful except the amendment exempting public securities from taxation. The first constitution, as well as that of 1851, vested all legislative power in the general assembly—the only limitation on the taxing power, in the first instrument, being a prohibition against poll taxes. All the provisions contained in the latter affecting taxation, are mere restrictions or limitations upon the general grant of legislative power.

In a government such as ours, where all the people of the state enter into a compact for their common preservation and welfare, the fundamental, underlying principle must be equality and justice between all men. Where the rights of all must be equal, each entitled to receive the same protection and the same benefits from the government thus formed, there are cer-

tain inalienable rights, such as the equal protection of the law, the right of enjoying and defending life and liberty, acquiring, possessing and protecting property, and seeking and obtaining happiness and safety, which must be recognized and preserved, and for the benefits and protection received, all should contribute as nearly as possible in proportion to their respective abilities. An equal sacrifice should be made by every one for the common good, for when each contributes to the public expense in proportion to his ability, all will contribute alike.

The measure of equality or inequality existing under any system of taxation is dependent upon how nearly this standard of equal sacrifice is approximated. Any inequality, either in basis of assessment or in rate of taxation, necessarily results in injustice. The end ever to be sought—the thing to be accomplished under any system of taxation is that it shall cause an equal incidence of public burdens. There must be some standard provided for determining this. A taxpayer's property furnishes the easiest and fairest standard for measuring his ability to contribute to the governmental expense, and equality in taxation is best secured by assessing all forms of property at full value and taxing all at the same rate, the true test of the value of property necessarily being the extent to which it will contribute to the support of its owners and the amassing of wealth in their hands.

It was the unmistakable intention of the framers of our constitution in providing a system of general ad valorem taxation that every person should be taxed upon what he is worth; they intended to, and believed they had provided a system that would approximate to the standard of perfect equality and uniformity, and one under which every property owner would be made to bear an equal and just proportion of the public burdens, and if this principle had been strictly adhered to and the provisions of the constitution honestly and fairly enforced, there would never have been any complaint that the burdens of taxation had not been distributed uniformly and equally upon all.

That the system has not accomplished all its authors believed it would has not been because the principle was wrong, but because it has not been properly enforced. This in part has been due to failure of the legislature to enact proper legislation, and in part to the unwillingness of officials to perform their duties.

There has been a long struggle in this country between the owners of realty on the one side and the owners of moneys and credits on the other. The struggle on the one side has been to secure entire or partial exemption of intangible property, while on the other the effort has been to equalize this by assessing realty and tangible personalty at much less than its true value.

Because moneys and credits have heretofore so uniformly escaped taxation, it is argued the general property tax in its application to personal property is a failure; that this is due to the inherent defects of its theory; that it is impossible to tax such property, and that attempts to do so only accentuate the inequalities and injustice of the system. In my opinion, there are but two horns to this dilemma; one is to tax all property, all forms of wealth, by a uniform rule; the other is to levy all direct taxes upon tangible property. Anything else is a makeshift, for just in-so-far as exemptions and special privileges are extended to one class to the exclusion of another, the increased taxation resulting falls with increased weight upon the non-excluded class.

I do not believe that a tax that can be evaded will be evaded; that where the incentive is strong enough false returns will always be made. On the contrary, I believe that the great majority of the people of my state are not only honest, but are willing to bear, each according to his means, their fair proportion of the cost of the government established and conducted by themselves for their equal benefit.

These conclusions may surprise those of you who have believed Ohio had the worst system of taxation in the country, and those who have been accustomed to cite it as the "horrible example." The evils of our taxation were pointed out by two

honorary tax commissions, and their reports, supported by more or less accurate statements of others, are relied upon to prove that the general property tax has been a failure in Ohio, and therefore should be abandoned. The facts stated by these special commissions were reasonably accurate and disclosed the existence of intolerable conditions—conditions, however, that upon examination are found to be comparatively little, if any, worse than those of other states.

The Minnesota tax commission, in a recent report, comments at considerable length upon the tax laws of Ohio and the "drastic methods of securing the disclosure of personal property" contending that even under our rigorous system, supplemented by a barbarous tax inquisitor law, we have not only signally failed in the effort to reach intangible property, but have driven many wealthy persons out of the state.

In passing it may be stated that the "barbarous tax inquisitor law" was repealed a number of years ago, not because it drove capital and wealthy persons out of the state, but because the results were comparatively trifling, a large part of the taxes collected under it never reaching the public treasury, and it afforded a ready-made excuse for those taxing officers who were negligent in the performance of their duties.

It is argued that if a very wealthy gentleman whose home is in Cleveland, but who does not reside there, should return to the state and be required to pay taxes upon his accumulated wealth his annual taxes would amount to fifteen million dollars. The assumption is that because of more favorable tax laws he resides in another state.

To the man on the street it does not appear any more unfair or unjust to require this gentleman to pay taxes upon the basis of what he is worth than it is for the man, who through thrift and economy has secured for himself a modest home, to pay taxes upon it at its full value; that for the former to pay several million dollars in taxes upon his property can be no greater hardship for him than is the payment by the latter of the taxes upon his house and lot.

I do not believe that the taxation of moneys and credits has or will drive capital out of Ohio. The members of the Ohio

tax commission were told that if manufacturing plants should be assessed at full value they would remove to other states and more favorable localities; that if the property of public service corporations should be assessed at what it is worth to them, no more capital would be invested in such property; needed extensions and betterments would not be made; and new enterprises would not be inaugurated; that if money on deposit in banks and building and loan associations should be taxed, all the deposits would be withdrawn, all the money go into hiding and financial chaos follow; that with public confidence thus destroyed and business thus hampered the laborer and the wage earner must inevitably suffer untold hardships.

Many millions of dollars of money that was not taxed in the past was placed on the duplicate last year, and no one has heard of an impending panic. Local boards and officers have been assessing the property of manufacturing plants at from three to ten times and even more than they were assessed in previous years, and my attention has not been called to any one removing from the state on that account. The assessed value of the property of public service corporations was increased in 1911 from \$263,000,000 to more than \$912,000,000, increasing their taxes several million dollars yet scarcely a day passes that application is not made to the public service commission for authority to issue additional stocks and bonds that more capital may be invested in such properties.

Many experiments have been advocated and some have been tried in other states and the advocates of change contend that in states where the constitution places no restrictions upon the powers of the general assembly in matters of taxation, the result has been of such marked advantage that all other states should at once change their constitutions. The state of New York during recent years has perhaps tried out more plans than any other state in efforts to devise a system of taxation that will require every one to contribute to the public expense in proportion to his ability to pay. In commenting upon this, the New York special tax commission of 1907 says that "the actual situation in New York involves in practice the very inverse of this principle," adding:

"We do not believe that the escape of personal property from assessment and taxation under the present system arises so much from the wickedness of our citizens, or from the depravity of human nature, or from the willingness of the owners of wealth to commit perjury and to debauch our tax officials, as it does from laudable, just and wide-spread sentiment to the effect that all should be taxed alike. We are of the opinion that if our citizens generally could believe that they were being taxed fairly, as well as equitably, there would be few who would seek to avoid the payment of their due share, but no one can be blamed who wishes to avoid paying more in proportion than his neighbors."

An examination of conditions in other states, where the legislature has unrestricted power in matters of taxation, fails to disclose that personal property is paying a larger proportion of taxes than it is in Ohio, or that their people are happier or more prosperous. In none of these states has there as yet been devised a system productive of better results than our own, even as it has been administered in the past.

The substitute most commonly recommended for the uniform rule is classification. The object to be attained by classification is that different rates of taxation may be levied upon different classes of property; that some classes may be taxed at a high maximum rate, others at lower rates, and still others at a very low minimum rate. It is conceded by the advocates of classification that real estate ought to be placed in the highest class, moneys and credits in the lowest.

Classification may be secured in either of two ways; first, by directly incorporating in the state constitution a provision permitting it, or through the general assembly under a constitution which places no restrictions upon the general grant of legislative power. Where the subject of taxation is placed wholly within the discretion of the legislature, or where it is permitted to classify property and levy taxes at different rates, there must be a constant struggle for special advantage, and the active, the vigilant, the diligent, who are always looking out for their own interests shift their burdens to the shoulders of those least able to bear them. In a struggle between the rich and powerful on the one hand and the ordinary taxpayer on the other, the latter always gets the worst of it.

Those who favor classification contend that moneys and credits, stocks, bonds, promissory notes and similar securities have not been assessed in the past; that because the owners of such property persistently evade their moral and legal obligations to pay taxes equally with the owners of other classes of property, this kind of property should be placed in a favored class and a very low rate imposed, in the hope that by so doing the owners may make full returns and contribute something toward the governmental expense; that under such a system the public revenues will be greatly increased and in this way the taxes of others, not favored with this low rate, lessened. This argument ignores one very vital principle of taxation, viz: equality. Revenue is not the sole object of taxation, and no tax is a just tax which is not imposed equally upon all the subjects of a state, measured by their respective abilities to pay.

The state of Maryland some years ago provided for the taxation of corporation bonds and stock in foreign corporations at a special rate. This is a pet illustration of this class of advocates of classification, the figures in the city of Baltimore being used; and while these figures do show a remarkable increase in the assessed value of such securities taxed in that city, the revenue from this source has only been increased during fifteen years about three and one-half or four times. No allowance is made by those using the illustration for any increase in wealth or better administration of the laws.

Another argument frequently advanced by those favoring taxing moneys and credits at a very low rate, or exempting them altogether, is that as every credit due must be equaled by a corresponding debt, as the aggregate of credits and debts must balance, in a correct economic sense, shares of stock, bonds, promissory notes and like obligations are not in themselves property and therefore should not be taxed.

In discussing the taxation of intangible property, Justice Brewer, of the United States supreme court, said:

“In the complex civilization of today, a large portion of the wealth of the community consists in intangible property, and

there is nothing in the nature of things, or in the limitations of the federal constitution which restrains a state from taxing at its real value such intangible property. It matters not in what this intangible property consists, whether privileges, corporate franchises, contracts or obligations. It is enough that it is property, which though intangible, exists, which has value produces income and passes current in the markets of the world. To ignore this intangible property, or to hold that it is not subject to taxation at its accepted value, is to eliminate from the reach of the taxing power a large portion of the wealth of the country."

The rule of property taxation is that the value of the property is the basis of taxation. "The value of property results from the use to which it is put, and varies with the profitability of that use, present and prospective, actual and anticipated. There is no pecuniary value outside of that which results from such use. The amount and profitable character of such use determines the value, and if property is taxed at its actual cash value, it is taxed upon something which is created by the uses to which it is put."

This is the view of the courts, and it must be admitted that to the ordinary man and to the popular mind securities, such as stocks, bonds, mortgages, and even simple credits, having a purchasing power, and constituting a source of income, is property which should bear its share of the tax burdens of the community. To place such property in a favored class and tax it at a lower rate than other property, not yielding any greater returns, is to arraign class against class. It is class legislation of the worst kind.

There may come a time when direct taxes will no longer be levied, but only those gifted with prophetic vision are able to distinguish the approaching dawn of that far-distant day. For the present at least, and probably for many years to come, the greater part of the public revenues collected for local purposes must be derived from taxes levied upon property, and so long as there is a property tax levied, the uniform rule is the only just and equitable rule of taxation. Inequalities in tax burdens in Ohio have not resulted from the rule, but exist in spite of it.

In commenting upon this, the present governor of Ohio said:

"The constitution points out the only road to fairness. And it is the only safe road for the great majority of taxpayers. The amount assessed against each of these, though important to him, is not enough to justify individual action in his own behalf, even if he had or could procure the necessary skill and opportunity to present his claims. Corporations and other large concerns are not under this disadvantage. It is the universal experience that in struggles for special advantages those get them who need them least, while the others are made to pay for them. All property of every sort should, therefore, be valued by the rule ordained by the constitution."

In 1859 the state of Ohio adopted a tax code that was a model for its time, and provided adequate machinery for assessing property, which then consisted mainly of land and tangible personalty. Corporations were limited in number and the amount of corporate property was small. That machinery for present purposes is antiquated and out of date. The marvelous progress and development of the last fifty years has made it necessary to adopt modern methods and to reshape the administrative provisions of our tax laws. New classes of property, new activities and new employments have been created; where formerly wealth consisted mainly of real estate and tangible, visible property, there is now invisible, intangible personal property of immense volume, unknown and unthought of half a century ago.

The state of Ohio has recently gone far in reforming its tax laws but additional legislation is needed, if her laws are to be equitably enforced and substantial justice between individuals and classes is to be attained. Changed economic conditions require a readjustment of our tax laws, but the changes should be evolutionary, and not revolutionary in character. New legislation must be constructive and not destructive. We must exercise care to see that a tax is not laid upon progress, and enact only such laws as will establish equality among taxpayers. Our problem is largely one of equalization. The changes can be confined to a comparatively few laws which are unjust, unequal in their operation, or false in theory. When

we have done this, Ohio will have a model tax code, the operations of which will be just to all citizens and will equitably distribute the public burdens.

The recent changes made in our tax laws were not effective last year in so far as the local assessment of personal property was concerned and for that year such property was assessed much in the same way as it had been done previously. The figures for the current year under the new laws are not available at this time, but from reports received, it appears that the assessed value of this class of property will be increased about one hundred per cent. over the preceding year. Nevertheless much has been accomplished. The total assessed value of the property in the state for the year 1910 was a little under two and one-half billion dollars. This was increased in 1911 to six billion and a quarter dollars in round numbers or a total increase of three and three quarter billions. From the information I now have, I feel safe in stating that the total for the current year will not be far from seven billion dollars, representing an increase of two hundred per cent. secured in a period of two years. The average rate of taxation last year was slightly under one per cent. for the entire state, and at this rate there will be collected for general purposes the sum of seventy million dollars. As but a very small part of this goes to the state, the entire amount may be said to be raised for the current expenses of the counties, municipalities and schools of the state. During the same period the state revenues from franchise taxes and excise taxes have been increased almost two million dollars.

The most important reform legislation enacted during this period was an act creating a state tax commission, and one limiting the rates of taxation. The tax commission act abolished all ex officio state boards of appraisers and assessors, state boards of equalization and ex officio county boards for assessing the property of steam, suburban and interurban railroads.

Under this act the commission is required to assess the property of all public service corporations doing business in the state, and to determine the amount of the gross receipts or

gross earnings of such companies as are required to pay an excise tax upon their gross receipts or gross earnings.

At the same session that the tax commission act was passed, a measure limiting the total tax rate, commonly known as the "One Per Cent. Law," was enacted, and for the first time in the history of the state, at least within recent years, an earnest effort was made to have all property assessed at full value. This act formed an important and very necessary part of the general plan of reform in the tax laws of the state inaugurated in 1910. It was apparent to every one who had given the subject any consideration that if all property was to be assessed at full value, it was imperative that the rates of taxation should be reduced.

Theretofores, when tangible property was assessed at varying percentages of full value, with a large proportion of the intangible property escaping entirely, the tax rates in the state had varied from one and four-tenths per cent. to six and seven-tenths per cent., with an average rate for the state of two and one-half per cent., and for the cities and villages of approximately three and one-half per cent., and it was recognized by all that to tax property, when assessed at its full value, at such rates would amount to practical confiscation, and that intangible property would entirely disappear from the tax list.

Under our system of taxation, those who determined the rates of taxation to be levied in the counties, cities, villages, school districts and townships were also the tax spenders, and it was deemed advisable to fix a limit beyond which these officers could not go in levying taxes. It was also believed that with a low rate of taxation the amount of intangible property that would be returned would be greatly increased, and the work of assessing other kinds of property would be less difficult.

This act which was amended in 1911 before it went into operation, provides four separate limitations upon the amount and rate per cent. of taxes that may be levied in any taxing district as follows, to-wit:

1. The aggregate amount of taxes which may be levied upon

the taxable property in any taxing district, including sinking fund and interest and levies for state, county, township, municipal, school and all other purposes in the year 1911, shall not exceed the aggregate amount of taxes levied in the year 1910; the aggregate levied in the year 1912 may exceed the aggregate in 1910 by not more than six per cent.; the aggregate in the year 1913 may exceed the aggregate in the year 1910 by not more than nine per cent.; and the aggregate in the year 1914, or any year thereafter, may exceed the aggregate in 1910 by not more than twelve per cent.

2. If to produce any such aggregate it will require a greater levy than ten mills, then only such amount may be levied as will be produced by the levy of a maximum rate of ten mills on each dollar of the tax valuation of the taxable property of any taxing district, exclusive of levies for interest and sinking fund purposes, for emergencies, and such additional levies as may be authorized by a vote of the people.

3. Each taxing board or authority is limited as follows:

For all county purposes, not to exceed three mills;

For all township purposes, not to exceed two mills;

For all city or village purposes, not to exceed five mills;

For all local school purposes, not to exceed five mills.

4. The aggregate rate which may be levied in any taxing district for all purposes, including additional levies authorized by a vote of the people, shall not in any event, exceed fifteen mills.

The maximum rates in the third limitation are exclusive of levies for interest and sinking fund and exclusive of special levies authorized by a vote of the electors, special assessments, levies for road taxes to be worked out by the taxpayers and levies and assessments in special districts created for road or ditch improvement purposes. The purpose of these limitations is to prevent one taxing board or authority from taking advantage of reduced levies made by other taxing boards or authorities and increasing its levy so as to bring the aggregate to the maximum limit of ten mills.

The county commissioners of each county, the council of each municipal corporation, the trustees of each township,

each board of education, and all other boards and officers authorized by law to levy taxes within a county, except taxes for state purposes, are required to submit to the county auditor an annual budget, setting forth in itemized form, an estimate of the amount of money needed for their wants for the incoming year and for each month thereof. The items to be set out in such budget in detail are specified in the statute. A budget commission for the annual adjustment of the rates of taxation is created, composed of the county auditor, the mayor of the largest municipality in the county and the prosecuting attorney of the county. It is made the duty of such budget commission to adjust the various amounts to be raised by taxation so that the total amount shall not exceed in any taxing district the sum authorized to be levied therein. In making such adjustment the commissioners may reduce any or all items in any budget, but may not increase the total, and no greater amount may be appropriated or expended in any taxing district than the amount fixed by the budget commissioners, exclusive of receipts and balances. Unexpended appropriations or balances remaining over at the end of the year revert to the general fund. When the commissioners have completed their work, the county auditor is required to ascertain the rate of taxes necessary to be levied in each taxing district. Provision is made for emergency levies to provide for casualties.

One of the most important provisions of the act granted immunity to those who failed or neglected to make proper returns in any year prior to 1911. The effect of this provision has been that many, who in former years had failed to return all their property, or return the same at full value, because of the excessive high rates of taxation, last year returned all their property at its full value it being no uncommon thing for such returns to be three, four or more times greater than the returns made in the preceding year.

This law, which has now been in full operation for a full year, is generally very popular with the people of the state. It is true that there has been some complaint as to its operation, but this is in the main attributable to the fact that because of not understanding its provisions some districts failed

to secure sufficient funds and suffered hardships in consequence.

This condition no longer exists and in all such instances, so far as I am informed, steps have been taken under which ample funds will be provided for the coming year. The law is not perfect, but with a few minor changes which experience has shown to be necessary, there will be no just ground for complaining of its operation. Statements occasionally appearing in newspapers and magazine articles, to the effect that the schools of the state have been destroyed, and the cities of the state impoverished, are without foundation, in truth or in fact, and emanate from interested parties or are circulated for political purposes. The state of Ohio spends annually upon its public schools more than twenty-five million dollars, and her people justly pride themselves upon having the best common school system of any state in the union. No one objects to providing all the money required for the public needs. The tax spenders of the state resent restricting their power to spend the taxpayers' money as they please, and some of them because of this are given to criticising the tax limit law.

When the tax laws of Ohio are properly administered, substantially all the property in the state will be taxed, and when that is done, the average rate for the state need not exceed seventy-five cents on the hundred dollars, and should not in any district exceed one per cent.

Any resident of Ohio who is unwilling to make full returns of his property and pay the taxes thereon at such rate is not a good citizen, and if to avoid paying these taxes he removes from the state, his going should be welcomed as a good ridance.

The people of Ohio are wedded to the principle of the general property tax and to a uniform ad valorem method of assessing property for taxation. They not only believe that every one should, but they are at present demanding that every one shall, whether merchant or manufacturer, capitalist or banker, farmer or mechanic, lawyer or doctor, rich or poor, pay his proper share—no more no less, of the expenses of sustaining the government under which he lives and prospers.

The progress made during the past two years is convincing proof that substantially all property now taxable under our laws can and will be placed upon the tax list and pay taxes as other property, even should the present laws remain unchanged, and that when the necessary changes are made all property of every kind and description will be taxed, and this will be accomplished without having to resort to extraordinary or drastic methods. At any rate, the people of Ohio intend to proceed on the theory that the best system of taxation is the one that taxes all property by a uniform rule, at full value, and limits the rate of taxation. Such a system may be "old fashioned" and "unscientific," but they believe it is just and fair and ought not to be abandoned until some so-called modern and scientific method has been shown in practical operation, not in theory, to be a better one.

DISCUSSION—UNIFORM RULE IN OHIO

THE CHAIRMAN: Gentlemen, that was a very interesting paper. It seems that, as Judge Dittey says, Ohio for so many years has furnished an example we are not likely soon to lose the value of that example. Is there discussion?

MR. ARTHUR C. PLEYDELL (New Jersey): The subjects listed on the program to follow Judge Dittey's paper, and the summary of the legislation of last year, and the pending constitutional amendments, without mentioning the volumes of the proceedings of this association, are almost overwhelming evidence that on the practical side the people of the rest of the United States do not agree with the Ohio opinion of the virtues of the uniform rule of taxation. It is unnecessary to more than refer to the well known fact that every civilized country this side of Turkey, with the possible exception of Switzerland, has abandoned the general property tax; that practically all of the states in the union, except Ohio, that have not modified their general property tax are trying to do so. That of course would not be evidence of itself against the correctness of the Ohio opinion, if the Ohio view was a new opinion. But it is the opinion of a very well tried system of taxation, that has utterly and completely broken down under modern conditions.

A reference was made in Judge Dittey's paper to the apparent failure of classification in the state of New York, as evidenced by the report of the special tax commission in 1907. The only result of the report of that commission was that two bills were introduced. One provided for a listing system quite similar to that in Ohio. There was such a storm of protest in the state that its author abandoned it, and it has never been enacted. The other bill was passed later. It lasted just one year. That was the inheritance tax law of 1910, repealed last year. It does not seem that the people of the state of New York approved of the findings of the commission of 1907, particularly in view of the fact that they have since that time

extended their classification system. So much for the practical side.

There ought to be something said about the fundamental economic fallacies running all through this paper. They come in the main from the use of the word "equality" to mean a half a dozen different things. We have heard in the paper about the equality of the burden of taxation, the equal measure, the equal benefit of government, the equal value of property, as though all of those things have some natural mathematical relation to some dollar and cents value. If there is to be an equality of sacrifice, for which Judge Dittey argues, he is furnishing no evidence whatever to support his contention that equality of sacrifice is reached by an equal taxation of the sale value of property owned. For example, it is well-known that the sacrifice involved by a tax upon a man of modest means is much greater in proportion than a similar tax on a wealthier man because it encroaches more upon his necessities. A \$50 tax upon a man owning \$500 (a ten per cent. tax) is an enormous burden, whereas a twenty per cent. tax or a fifty per cent. tax upon an inheritance of a hundred million dollars would involve practically no sacrifice at all. So that the rule fails in its first application.

Secondly, we are told that everybody gets the equal benefit of government. If it is true that the benefits are equal in the same sense that Judge Dittey has used the word elsewhere, then everybody should pay equally—that is, we should all pay a head tax, which long experience has shown to be one of the most obnoxious forms of taxation, utterly disproportionate to benefit received, or ability to pay, or equality of sacrifice. Then we had a quotation from Justice Brewer's decision in the supreme court, which dealt with intangible values rather than intangible property. That decision was intended to justify the taxation of privilege values—I think that is quoted from the Adams Express case—which come from the use of physical property in connection with other privileges. Those decisions were not intended at all to apply to the so-called intangible property, which is merely the certificate of ownership of a tangible property.

And so throughout the paper we find the same use of the work in different senses, in order to justify a most unequal system of taxation. For even if we come to the final conclusion of Judge Dittey that you have an equal burden of taxation by an assessment of all property at its selling value, it is not a fair adjustment of the tax burden. That meets neither the theory of ability to pay, nor equality of sacrifice, nor benefits received. For example, if any one would invest \$500 in furniture and put it into his home, it would produce no revenue whatever, but if it was placed in a room in a hotel it would produce considerable revenue. If you want taxation according to ability to pay or equality of sacrifice, the earning capacity of the property is one of the vital considerations, and not its selling value in money, which is always determined by the actual cost of producing that article, the labor and the cost of raw material and the cost of distribution involved.

Take one other illustration. What justice can there be in assuming that there is an equality of sacrifice, or taxation in proportion to ability to pay, in assessment according to the ad valorem plan, of the privilege value given to a trolley company to occupy a street? It has cost the company nothing in the way of effort over and above the cost of the rails. It is not equality of burden to give a privilege worth several hundred thousand dollars to a trolley company, costing them nothing, and make them pay a rate of taxation exactly the same upon that as is placed upon an equal amount in value of farm buildings and improvements that men have made by the labor of a lifetime, and sometimes two or three generations of labor—the hard work, the putting of their lives into the improving of their farms; and to claim you have reached an equality when you assess a hundred farms a thousand dollars each, on the improvements and the hard labor and the generations of sacrifice that have gone into it, and a hundred thousand dollars on perhaps a stolen franchise—it is almost too absurd for discussion.

PROF. EDWIN S. TODD (Ohio): As a citizen of Ohio I suppose it would not be in good taste for me to criticise at length

a paper read by another Ohio citizen since he is not present, but I cannot refrain from saying a word.

There are two statements in the paper with which I agree. One is that the system of taxation should be evolutionary rather than revolutionary. Secondly, I am in full agreement with Judge Dittley when he states that he is ashamed when he hears Ohio called "a horrible example." I am ashamed too. (Applause.) But, gentlemen, I don't believe that the writer of this paper any more represents the notions of the enlightened people of Ohio than a little bit of a dwelling that I saw down in Harlem the other day represents the ideas of the people of New York on architecture. That little building in Harlem is a relic of village days a hundred years ago. This paper is a relic of the past.

It seems to me that you can get a good idea as to the opinion of the enlightened people of Ohio in the vote we took three years ago with respect to changing the constitution in this particular. The vote in favor of changing the constitution so as to permit a new taxation system was a majority of the votes cast; but, unfortunately, there had to be a majority equivalent to the majority of all the votes cast at the last election.

MR. PLEYDELL: For the highest office, governor, the preceding year.

PROFESSOR TODD: So for that reason it failed. Another thing might be said. The initiative and referendum (which, according to this morning's papers, seems to have carried in Ohio) was made possible in the constitutional convention by a fusion of those who upheld this old idea of taxation and those who favored the initiative and referendum. The referendum enthusiasts were quite willing to trade with those who believed that the present system is all that the judge has said it to be, by declaring that the people of Ohio under the initiative and referendum should have no right to tamper with this sacred thing,—should have no right to initiate a law which shall change the system of taxation in Ohio. (Applause and laughter.) But there is progress even in Ohio, I assure you, and I believe that the day is coming when Ohio will cease to be "that horrible example." (Applause.)

THE CHAIRMAN: Is there further discussion, gentlemen, of Judge Dittey's paper?

MR. ALBERT WATKINS (Nebraska): If there is time—I don't wish to intrude upon the meeting—I should like to add a little concrete testimony as to my observation in Nebraska.

THE CHAIRMAN: The time is yours, sir.

MR. WATKINS: I have watched the general property tax from a point of vantage at the capital for thirty years, a part of that time with the abnormal curiosity, if not penetration, of a newspaper man, and the result has been only to convince me of its inevitable and necessary favoritism and unequalness. There has been a reasonable amount of equity as to a class, but as between classes the attempt there in those thirty years has been but to confirm, according I think to a former report of this conference, the absolute impossibility of securing equity. We are waiting, doing nothing, on account of our constitution. We have been unable to change that. Just what will be done I don't know, but we have an initiative and referendum amendment to our constitution pending, which will be voted on at the coming election, and in all probability it will pass. And I think perhaps the saving grace of the Bull Moose platform is concentrated in the declaration that we must have a better method of amending constitutions. When that comes we shall escape the oppression and inequity that have resulted from the attempt to live under a general property tax in Nebraska. It seems to me, and that is all I have to say, that the experience is almost conclusive. In Nebraska in 1903, in a spasm of virtue, we passed a new revenue law, raising the assessment, and for a few years there was something of an improvement in the equity of the assessment; but the sow has returned to her wallow, and we are about back to where we were before. So that the query arises now, if, after thirty years of experience, we have made no improvement, when shall we expect the equity or the condition which the writer of the paper seems to hold out will come? In other words, to paraphrase the old maxim a little bit, "If so long this improvement was to be run for, when will the evils be done for?"

TWO YEARS' EXPERIENCE IN MINNESOTA WITH THE THREE-MILL TAX ON MONEY AND CREDITS

BY J. G. ARMSON

Member Minnesota Tax Commission

For more than fifty years Minnesota attempted to tax money and credits with the same machinery and in the same manner as tangible personal property. The system was an inheritance from the older states, particularly Ohio whose constitution with all its imperfections we appropriated almost bodily, and was based on the general property tax principle of uniformity and equality, regardless of the nature and use of property. Our experience with the system was not materially different from that of other states and countries that had followed the same methods—at no time did we ever succeed in getting more than a small fraction of intangible personal property on the tax rolls.

It is not necessary to enumerate the causes that contributed to our failure to reach this class of property for purposes of taxation. The same deterrent causes that have always and everywhere rendered ineffective every attempt to successfully tax certain forms of intangible personal property exist in Minnesota, as elsewhere. It was scarcely to be expected that we could succeed in doing that which others failed to do, for the frailties of human nature are just as pronounced with us as in other states and countries.

While our efforts to get this class of property on the tax rolls were never successful, the failure to do so was not so noticeable in the earlier years of our history when agriculture was our chief industry. But with the rapid growth of our state during the past quarter of a century in commercial and industrial activities, followed by a still more rapid increase in wealth, our

failure to reach such property for purposes of taxation became more and more apparent, as well as more pronounced. In 1910 the amount of money and credits returned for taxation represented less than three per cent. of the estimated value of such property owned by citizens of the state.

It is generally conceded that the value of this class of property owned in the state far exceeds the value of tangible personal property, yet prior to 1911 the assessed value of such property never in any year exceeded 29 per cent. of the total personal property assessment of the state.

In 1880 money and credits represented 22.6 per cent. of our total personal property assessment. In 1890 it had increased to 27.8 per cent. of the total, but in the next ten years, notwithstanding the rapid growth of the state in wealth and population the trend was downward, until in 1900, it represented but 22.5 per cent. of the total. During the next decade it began to show some increase, noticeably so after the organization of the tax commission in 1907, and in 1910 it reached the highwater mark under the old system the amount that year being 29 per cent. of the total. In 1911, the first year of the three mill tax rate, it jumped to 48.5 per cent. of the total. While the figures for this year have not yet been compiled, it is safe to say that the assessed value of money and credits will exceed 50 per cent. of the total personal property assessment of the state in 1912.

Realizing our failure under the old system, after more than half a century of unsuccessful effort to get certain forms of intangible personal property on the tax rolls, the legislature in 1911 enacted a law providing for the separate listing of money and certain classes of credits, and imposing a flat tax rate of three mills on the dollar in lieu of all other taxes.

"Money," as defined in the law, includes all forms of currency in common use, whether in hand or on deposit in a bank.

"Credits" include book accounts, notes, bonds, rents, annuities, and mortgages upon which the mortgage registry tax has not been paid, and all other claims or demands for money or other valuable thing. The money of banks, and mortgages upon which the mortgage registry tax has been paid, and state

and municipal bonds issued subsequent to the passage of the law are exempt from the three-mill tax. No deduction is allowed for debts.

The money and credits taxable under the act are listed and assessed on separate blanks prescribed and furnished by the tax commission. The assessment is reviewed and equalized in the same manner as the assessment of other personal property is reviewed and equalized.

The law requires each person subject to the tax to make a sworn return of his money and credits on or before a date specified in the listing blank. The assessor is required to accept the items of such list as true, unless the person making the return refuses to answer on oath all reasonable and necessary inquiries as to the nature and amount of his property taxable under the law. The assessor may, however, place his own valuation on the property so listed when in his judgment the valuation returned by the owner is not the true and full value of the property.

If any person subject to the tax refuses or neglects to make a return in accordance with the provisions of the law, the assessor is required to make an arbitrary assessment against such person, based upon the best information he can obtain, and then add fifty per cent. to the valuation as a penalty for such refusal or neglect.

In making an arbitrary assessment the law does not require the assessor to have exact knowledge of the value of the property; he is authorized to make the assessment upon "his best information and belief." An error or overestimate in any item of the list does not entitle the person arbitrarily assessed to relief, unless he can show that the aggregate of the items is greater than the true value of the property of this nature owned by him.

The tax is levied and collected in the same manner as other personal property taxes, and is apportioned, one-sixth to the revenue fund of the state, one-sixth to the county revenue fund, one-third to the city, village, or town, and one-third to the school district in which the property is assessed.

The bill providing for a change in the method of listing and

assessing money and credits was put upon its final passage the last day of the legislative session, and was signed by the governor on April 23, 1911, only seven days before the assessors began the personal property assessment of that year. Because of this limited time the tax commission was unable to prepare instructions, and to have the listing blanks printed and in the hands of the assessors on May 1st, the date of assessment in Minnesota. In fact many of the assessors were well along with their work before they even knew that the law had been changed, and as a result, the assessment in many districts was made in a perfunctory manner, and in some districts no attempt whatever was made to list and assess this class of property.

While making due allowance for the delay in receiving their instructions and the general lack of knowledge of the new law, the tax commission felt that many of the assessors had been intentionally and grossly negligent in enforcing its provisions. It was felt that if some of the taxing districts were permitted to ignore the law, it would soon become a dead letter in the entire state, and as a result, would be a serious set-back to progressive tax legislation in the future. After a thorough investigation of conditions in the districts that had failed to return any assessment of money and credits, or had made but a small return of this class of property, the tax commission, exercising the power vested in it, ordered a reassessment of such property in 297 of the 2400 taxing districts of the state. The resulting increase in amount and number of persons assessed fully justified these reassessments.

The wisdom of the change in the method of listing and assessing money and credits was looked upon by many thoughtful students of taxation with considerable doubt, but the gratifying increase in the amount listed for taxation the first year, and the more equitable distribution of the tax under the new law among those who should bear it have almost entirely removed these doubts.

In 1910 the assessed value of money and credits in the classes now included in the three-mill tax law amounted to \$13,919,806. In 1911, the first year under the new law, the amount

returned for taxation was \$115,676,126, an increase of 731 per cent. over the preceding year. With three of the eighty-six counties of the state estimated, the assessment of money and credits this year is \$135,034,476, being an increase of 16.7 per cent. over 1911, and 870 per cent. over 1910. Based on the population of 1910 the per capita assessment of this class of property was \$6.70 in 1910, \$55.73 in 1911, and \$65.06 in 1912. Compared with bank deposits, the assessment of 1910 represented only 4.2 per cent. of such deposits, while in 1911, it equaled 33.8 per cent., and in 1912, 42.3 per cent. of bank deposits.

That the assessment is much more widely, and hence much more equitably distributed among the people is shown by the large increase in the number of people assessed under the new law. While no exact data is available for 1910, it is estimated that the number of people assessed for this class of property in that year did not exceed 6,200. In 1911 the number assessed was 41,439 and in 1912, the present year, 49,949 assessments of such property have been reported.

For convenience in comparing the different items for the three years we give the following:

RECAPITULATION

	1910	1911	1912
Number assessed	6,200	41,439	49,949
Total assessment	\$13,919,806	\$115,676,126	\$135,034,476
Per capita assessment	\$6.70	\$55.73	\$65.06
Per cent of bank deposits ...	4.2	33.8	42.3
Per cent increase over 1910 ..		731	870
Per cent increase over 1911 ..			16.7

A brief comparative statement of the assessment of money and credits under the old and new system in the leading cities of the state may be of interest. The assessed value of such property in the twenty-four cities of the state having a population in 1910 of 5,000 and over was \$9,892,526 in 1910, the last year under the old law, while in 1911, the first year under the new law, it was \$74,858,801, an increase of 657 per cent. The assessment in 1912 in the same cities amounts to \$90,303,134,

being an increase of 20.6 per cent. over 1911, and 812.8 per cent. over 1910. The average per capita assessment of this class of property in these cities was \$12.85 in 1910; \$97.23 in 1911, and \$117.29 in 1912.

The following detailed statement of the assessed value of money and credits, the per capita assessment, and the number of people assessed in 1910, 1911 and 1912 in the eight cities of the state having a population of over 10,000 may be of interest:

City	Population	Assessment of Money and Credits			
	1910	1910	1911	1912	
Minneapolis	301,408	\$5,967,495	\$26,938,940	\$39,125,705	
St. Paul	214,744	2,752,705	24,088,791	25,442,414	
Duluth	78,466	386,675	9,069,870	11,647,604	
Winona	18,583	284,525	3,894,537	4,267,887	
St. Cloud	10,600	3,891	417,317	493,314	
Virginia	10,473	475	916,843	823,528	
Mankato	10,365	25,700	753,353	647,152	
Stillwater	10,198	32,045	923,764	821,202	
Totals	654,837	\$9,453,511	\$67,008,415	\$83,268,806	

The per capita assessment of this class of property in these cities for the same years was as follows:

	1910	1911	1912
Minneapolis	\$19.80	\$89.38	\$129.71
St. Paul	12.82	112.17	118.47
Duluth	4.93	115.59	148.44
Winona	15.31	209.58	229.67
St. Cloud .....	.37	39.37	46.67
Virginia .....	.05	87.54	78.64
Mankato	2.50	72.68	62.44
Stillwater	3.14	90.58	80.53
Average per capita.....	\$14.43	\$102.32	\$127.16

A study of the number of persons assessed for this class of property under the old and new system is equally interesting. While the number of persons assessed in 1910 in the following table is partly estimated, the figures are approximately correct.

NUMBER OF PERSONS ASSESSED FOR MONEY AND CREDITS

	1910	1911	1912
Minneapolis	882	2,568	4,561
St. Paul	710	2,797	3,143
Duluth	112	945	1,181
Winona	28	378	353
St. Cloud	4	189	196
Virginia	2	44	77
Mankato	14	201	197
Stillwater	22	145	193
Totals	1,774	7,267	9,901

Notwithstanding the low rate of taxation the amount of revenue derived from the three-mill tax on money and credits in 1911 was nearly as large as that of 1910 when the rate averaged over twenty-eight mills. The total tax on this class of property in 1910 was \$379,754.58; in 1911 it was \$347,028.38, a decrease of \$32,726.18 or 8.2 per cent. compared with the preceding year. Excluding Minneapolis and St. Paul from the statement, the balance of the state made a net gain in revenue from this source of \$71,505.85 in 1911 over 1910. Of the eighty-six counties of the state, sixty-eight showed a gain and eighteen a loss in revenue compared with 1910. In the sixty-four cities and villages of the state having a population in 1910 of 2,000 and over, fifty-three gained and eleven lost in revenue.

The heaviest decreases in the cities were in Minneapolis and St. Paul, but these decreases were more apparent than real. For many years a custom prevailed in both of these cities of first fixing the aggregate assessment to be made against the more wealthy individuals, firms and corporations, and then making an arbitrary division of the assessment among the items of the personal property list without much regard to the actual value of the property included in any class. Because of this custom it is impossible to compute the exact amount of revenue derived from this class of property actually included in the 1910 assessment. The amount was probably considerably less than the assessed figures indicate. For this reason we are inclined to think that the loss of revenue in these

cities from this source in 1911 compared with 1910 was more apparent than real.

A brief study of the results obtained from reassessments of money and credits made by the tax commission in 1911 may also be of interest. At the outset the commission determined that as long as the law remained on the statute books it would faithfully endeavor to enforce it. It was passed by the legislature to relieve an intolerable condition and was entitled to a fair trial. It was felt that if assessors were permitted to ignore it, as they had the old law, it would soon become a dead letter, and would, because of failure, greatly retard desirable tax reform along other lines.

As already stated there was a general lack of information among assessors of the provisions, scope and purpose of the law when the initial assessment under it was begun. It soon became apparent to the commission that the law was being ignored in some taxing districts, and but indifferently enforced in others. Letters were prepared and sent to each county board of equalization requesting them to carefully scrutinize the work of the assessors, and if they found that the law had been ignored or indifferently enforced in any district, a reassessment would be ordered upon their request.

A number of county boards requested a reassessment in one or more districts in their counties, which requests were complied with. In addition, the tax commission decided to make numerous reassessments in a number of counties that had not indicated a desire for a reassessment. Altogether 297 taxing districts scattered over forty-nine of the eighty-six counties of the state were reassessed. These reassessments were made by ninety special assessors appointed by the tax commission, care being taken to select only such men as possessed special qualification for the work.

There were 1,831 persons assessed by the regular assessors in the 297 districts reassessed, the total regular assessment being \$4,602,296, while the special assessors found 8,606 persons subject to the tax for a total assessment of \$14,221,705, the increase in the number of persons assessed being 370 per cent., and 209 per cent. in the amount of assessment.

There were twenty-four of the smaller cities and villages of the state, varying from 2,000 to 10,000 in population, included in the districts reassessed. The regular assessors found 1,094 people subject to the tax in these municipalities with a total assessment of \$2,928,315, while the special assessors increased the number of people assessed to 3,070 and the assessment to \$7,598,637, the increase in the number of people assessed being 180 per cent., and 160 per cent. in amount of assessment. The average per capita assessment as returned by the regular assessors in these cities and villages was \$25.68; the per capita was increased by the special assessors to \$66.64.

The results obtained from the reassessment in each and every district fully justified the tax commission in ordering such reassessments. In addition, such action was a notice to every assessor in the state that the law must be enforced, and that careless and inefficient work would not be tolerated by the tax commission. While the increase in the number of persons assessed, which meant a wider and more equitable distribution of the tax burden, and in the amount of the assessment which meant increased revenue, was very gratifying, the reassessments demonstrated that when a thorough and conscientious effort is made by a competent assessor, backed by a law that is not confiscatory, to reach intangible personal property for purposes of taxation fairly satisfactory results can be obtained.

While it can scarcely be claimed that two years afford sufficient time to demonstrate the success or failure of any radical departure from methods of taxation that have grown hoary with age, yet our brief experience in Minnesota with the three-mill tax on money and credits justifies us in the belief that we have taken a decided step in advance. Men differ on the wisdom of taxing property of this nature at all, but there is no difference in opinion that a burdensome or confiscatory tax drives such property into concealment. Experience in our own and every other state has demonstrated that when a tax rate consumes more than ten per cent. of the income from this class of property it will not be voluntarily listed for taxation. The average tax rate in Minnesota this year is nearly thirty

mills. With such a rate consuming, as it would, from forty to sixty per cent, of the income from invested credits, it would be folly to hope to reach more than a fraction of such property for purposes of taxation under the old system.

It was for this reason that the legislature passed the three-mill tax law. We believe it is a decided improvement over the old method of taxing money and credits, because it is more equitable and will eventually produce more revenue than the old system did. Above all, it makes for good citizenship, because it reduces the premium on dishonesty, and permits men to be truthful in their tax statements without the fear of having their property confiscated in excessive tax rates.

DISCUSSION—THREE-MILL TAX IN MINNESOTA

MR. H. K. WARREN (South Dakota): I remember some fifteen or twenty years ago talking with a banker in Hartford, and he brought out the fact that after this sort of an experience the rate had been dropped two or four mills, I don't remember exactly, but the net result was more income than before. I wonder if some one from Connecticut can tell us about the present status.

MR. WM. H. CORBIN (Connecticut): Connecticut has had for many years what is known as the chuses in action tax, which originally provided a tax of two and one-half mills on all chuses in action, to be paid to the state treasurer. In 1897 this was changed to a four-mill tax, so that in Connecticut there is at present a tax similar to the one about which we have just heard, which is levied upon the value of all chuses in action. These are to be registered with the state treasurer, and the tax paid to him, and that payment exempts such chuses in action from all local taxation during the year ensuing thereafter. Connecticut receives now about \$165,000 from this tax, but there has been a very large increase since it was originally adopted.

The very interesting illustration which the gentleman refers to I think was made evident the year after the tax was adopted. Before that time the property had to be listed locally, and was subject to the local rate, which probably averaged sixteen or seventeen mills in the different towns throughout the state. According to the returns of local assessors there was very little taxable cash. There were very few bonds held just at that time. Personal mortgages were not much in evidence. Most of the cities seemed to be very poor as far as such property was concerned. When the new chuses in action tax was in force there appeared suddenly, as registered in the state treasurer's office, about thirty-three millions of that property which had not appeared at all before, and some wag stated that the Connecticut

conscience would not stand a seventeen-mill tax, but it would get worried over a two and one-half-mill tax, and therefore, would pay the latter tax and admit the ownership of the property. We hear very often of Pennsylvania and Maryland, but nearly all the economic writers and speakers forget to say that Connecticut has had for many years this form of classification of taxable property. Judge Dittey says that the experience of all states where there is no constitutional tax limitation is that they experimented with a large number of varieties or forms of taxation, and after abandoning one would take up another, etc. Connecticut from time immemorial has had no limitation, whatever, in its constitution relative to taxation. The tax revisions are entirely legislative enactments, and we have not experimented. Our property tax consists of the taxation of real and tangible personal property, and some intangible personal property, except for this four-mill tax, at the fair market value. We also have classifications. Stocks of banks, etc., are taxed at the rate of one per cent. and choses in action at four mills. I think, if Judge Dittey had investigated the Connecticut system, he would have found that we are very conservative and stable. I know, as tax commissioner, it is difficult to get a change, and, if the people think it is some new-fangled notion, their inclination is to stick to the old method.

MR. A. E. SHELDON (Nebraska): This appears to fall into the domain of ethics and not economics. While that interests us all, we are here primarily to discuss economics, and I am particularly interested in hearing from Mr. Armson whether the application of this rule in Minnesota has been accompanied by any fluctuation in the interest rate.

MR. ARMSON: No, I think there has been no noticeable fluctuation in the interest rate. Minnesota has what is known as the mortgage registry tax law. When a loan is made and secured by a mortgage, one-half of one per cent. is paid when you record the mortgage in lieu of all other taxes, so that as far as loans, and particularly secured loans are concerned, this law would not affect it.

THE NEW YORK "SECURED DEBTS" LAW

BY EDWARD L. HEYDECKER

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In the state of New York, in common with the other states, there had long been dissatisfaction with the operation of the general property tax as applied to the taxation of personal property. But unlike many sister states, New York has not been hampered with constitutional provisions which require an ironclad uniformity. As a result various attempts have been made to modify the severity of the tax. In 1905 a law was passed providing for the taxation of mortgages on real estate at one-half of one per cent. annually. This was considered an improvement on the old method of taxation, but the adoption of this specific tax in place of the easily evaded personal tax, caused an abrupt rise in rates of interest and a contraction in available loans. The following year the law was changed so as to provide for a registration fee of one-half of one per cent. when the mortgage was offered for record. Upon the payment of this fee the mortgage and the debt secured thereby are exempt from all other state and local taxation. Hence, since July 1, 1906, no mortgage on real estate or any bond secured thereby has been taxable in New York, if recorded after that date and the mortgage recording tax fee paid.

The results under this law have been most satisfactory. The revenue has been large and steady from year to year. It has been practically new found revenue, because under the old method of the general property tax there were comparatively few mortgages subjected to taxation by the local assessors. The rate of interest has fallen slightly, although it is difficult to prove this in the absence of proper statistics. But there can be no doubt that under the old method the chance that the

mortgage might be taxed, often induced the demanding of an additional one per cent. or one-half of one per cent. interest as a safeguard against possible taxation. Under the present law no such need of protection exists and the borrower pays only the current market rate of interest.

The mortgage recording tax act has been amended from time to time, so as to permit the registering of old mortgages existing prior to 1906 and the paying of the recording tax upon them; also to permit the registering and taxing of serial bonds secured under the general corporation mortgage, without requiring the presentation of all the bonds of the series. The act provides for the apportionment of the tax when the mortgage covers property both within and without the state; and provides for the payment of the tax on instalments of principal as they are advanced under some existing mortgage. In this way, the mortgage recording tax law is now in a most satisfactory condition.

Banks and trust companies have for eleven years been taxed at one per cent. annually on their capital, surplus and undivided profits in lieu of the personal property tax, and savings banks are taxed one per cent. upon surplus and undivided profits. In New York neither the shares of domestic nor foreign corporations are taxed to the holders, because the corporations are taxed upon their property in the same manner as individuals and to tax the shares would result in taxing the same property twice.

Hence in New York in 1911 a large part of what we may call permanent investment securities had been taken out of the general property tax and put into a special class or classes. In this way, we had satisfactorily disposed of local mortgages and bonds, bank stock, trust company stock, savings banks and shares of stock. What then remained in the general grouping of investment securities? Only bonds, mortgages of other states, money and credits.

The "Secured Debts" law of 1911 undertook to deal with foreign bonds and mortgages in the same way as had been done with domestic bonds and mortgages, as nearly as possible. In the case of mortgages secured on real estate within the state,

the state could reach them through its control of the registration. Investments in bonds of corporations outside of the state or investments in mortgages on real estate outside of the state could not be reached, in that way. All such investments were theoretically subject to the general property tax at the annual local rate. But there was absolute agreement everywhere that very little of this class of property was taxed and there was further agreement everywhere that there was small likelihood that it ever would be found by the assessor. Even if it was found and placed on the roll, the result was frightful inequality. As a rule, bonds were only found in the hands of executors and administrators or in the hands of women who suddenly found their names on the tax roll.

The "Secured Debts" law permits the holder of any security which falls within the definition of "secured debt" to present the security or a description of it to the state comptroller, pay a registration tax of one-half of one per cent. upon its face value, have a stamp to that effect affixed, and cancelled by the state comptroller, and thereafter to hold such security free from state and local taxation.

The application for the stamps and the payment of the tax is, of course, voluntary. But the impulse to make the application is greatly strengthened by the provision in the law that the holder of a "secured debt" who has failed to register his securities is denied the right to offset his just debts against the "secured debts" and is taxed at the full local rate upon the value of the unregistered "secured debts." This is proving to be a sufficient stimulus with those who are familiar with the law, to induce them to register their bonds.

It is astonishing however, how slowly knowledge of a change in the tax law spreads among the people. Despite the earnest efforts that have been made in the city of New York to bring the new law to the attention of bondholders, many remain in ignorance of its provisions. Great was the indignation displayed last October when hundreds of men and women found themselves compelled to pay the full local rate on their unregistered "secured debts," because under the law they could no longer offset their debts against their bonds.

The revenue under the new law has been fairly satisfactory.

For eleven months, September 1, 1911 to July 31, 1912, the receipts for the state treasury have been \$1,368,667.60.

For the entire year ending August 31, 1912, they should be close to \$1,500,000.00.

There is reason to believe that the receipts may exceed this sum next year, for several corporations are contemplating paying this tax upon their new issues before offering them to the public.

All this revenue is new found revenue as in the case of the mortgage recording tax. It is paid into the treasury with the minimum of expense and trouble. The entire expense of collection will be less than \$25,000.00. The entire staff employed in both Albany and New York offices numbers only ten men, and the expense for the stamps is slight.

The definitions in the law are broadly drawn and practically include all interest-bearing securities issued by foreign corporations, intended to be offered for investment. They do not include notes and commercial paper. Mortgages on real estate outside of the state are included, also bonds of other states and their municipalities.

Thus New York has classified and subjected to some special tax, all elusive forms of personal property except money and credits and finds that a satisfactory revenue can be produced from these special taxes.

But the law is not without its enemies. It is strongly urged that it interferes with the sales of New York state and municipal bonds since these bonds now are deprived of their monopoly of exemption from taxation. This of course is true, but the revenue from the new law outweighs many times over the slight loss, if any, in the lower premium, obtained on the sales of state and municipal bonds.

Another complaint is that the state treasury gets all the tax and that the local treasuries get none, notwithstanding the fact that theoretically at least, bonds are now subject to local taxation. The answer, of course, is that the new law produces a revenue where none was produced before, so that the municipalities are not really losing and further that they really gain by being relieved from a state direct tax, just to the extent that the new tax fills the state treasury.

TAX LEGISLATION OF 1912 IN THE STATE OF RHODE ISLAND

By Z. W. BLISS

Chairman Rhode Island Board of Tax Commissioners

Reforms or changes in taxation or revenue systems are usually due to a deficiency in revenue which cannot be supplied except by developing new sources of revenue or by a readjustment of the burdens of taxation; the old sources of revenue having contributed all that can be exacted without either serious economic disturbance, or the perpetration of injustice so flagrant and apparent that public opinion will not tolerate it. If this statement is not true as a general proposition it is true of Rhode Island, for but three important changes in the laws relative to state and local revenue, except changes in the rates of state and local taxation, have been made within the last thirty years.

In 1893 the rate of state tax upon savings deposits was changed from two and one-half mills to four mills (General Laws 1909, chapter 39). In 1898 a law was enacted imposing a state tax upon the gross receipts of street railway corporations (General Laws 1909, chapter 216), varying in amount according to the rate of dividends paid, and at the legislative session in 1905 a law was enacted changing the method of valuation of the several cities and towns for purposes of state taxation, and taxing the tangible personalty of corporations where found (General Laws 1909, chapter 39, section 2).

The law of 1905 provided that the valuation as fixed by the local assessors should be used for the basis of the state tax. Previous to the enactment of this law the valuations were fixed by the legislature. These changes in the law substantially increased the state's revenue, particularly the increase in rate on savings deposits and the change in method of valuation, as will be shown more in detail.

The varying demands upon our general treasury have been supplied for many years from the same sources with very slight changes in the state's direct tax rates, the tax levied by the state upon the several cities and towns furnishing the most convenient element of elasticity.

Up to 1904, although the demands upon the treasury had been increasing steadily, the natural increase in values with its accompanying increased direct tax, and the increased returns from the other sources of state revenue, had kept pace with the growing expenditures, and no radical changes were deemed necessary except those above noted. Various joint special committees appointed to recommend valuations for the basis of the state tax had called attention to many defects in local taxation, a committee reporting in 1896 recommending, among other things, the change in the method of valuation adopted in 1905.

The average state expenditure per annum was

from 1893 to 1899 inclusive.....	\$1,425,470.75
from 1900 to 1904.....	1,613,135.54
from 1905 to 1909.....	2,383,465.28
for 1910	2,565,313.36
for 1911	2,455,013.04

While the latter figure represents the actual expenditures for 1911, \$467,674.14 additional was appropriated by the general assembly, but the bills were vetoed by the governor.

(See table on page 257.)

The appropriations for 1912 aggregate \$3,373,839.08. This amount shows an increase in the annual expenditures over those of 1892 of \$2,259,707.57. In other words the expenditures of the state are more than three times as much as they were in 1892. It should be noted that approximately \$350,000 of this amount should have been expended in 1911, which would change the per cent. of increase, but would not affect the total amount expended during the period.

In addition to this increase in expenditures during the last twenty years \$7,200,000 in bonds were issued, of which \$670,-

TABLE A

	1893	1893	1894	1895
Receipts.....	\$1, 138, 199.40	\$1, 338, 419.72	\$1, 334, 727.17	\$1, 340, 392.62
Expenditures.....	\$1, 114, 131.51	\$1, 243, 578.37	\$1, 286, 945.47	\$1, 671, 836.86
	1896	1897	1898	1899
Receipts.....	\$1, 453, 843.82	\$1, 405, 690.14	\$1, 501, 771.82	\$1, 438, 970.51
Expenditures.....	\$1, 479, 860.84	\$1, 405, 030.90	\$1, 486, 682.84	\$1, 390, 141.45
	1900	1901	1902	1903
Receipts.....	\$1, 481, 479.75	\$1, 577, 294.41	\$1, 490, 621.96	\$1, 668, 224.53
Expenditures.....	\$1, 355, 447.96	\$1, 597, 610.78	\$1, 537, 502.41	\$1, 770, 801.39
	1904	1905	1906	1907
Receipts.....	\$1, 663, 104.82	\$2, 001, 951.17	\$2, 077, 226.11	\$2, 166, 625.36
Expenditures.....	\$1, 814, 306.19	\$1, 944, 394.84	\$2, 116, 437.04	\$2, 116, 338.18
	1908	1909	1910	1911
Receipts.....	\$2, 183, 046.59	\$2, 317, 511.64	\$2, 510, 492.84	\$2, 543, 663.16
Expenditures.....	\$2, 381, 609.08	\$2, 358, 548.54	\$2, 565, 313.36	\$2, 455, 013.04

000 * have been retired, and a sinking fund amounting to \$593,310 has been set aside, giving a net indebtedness of \$5,936,690.

It is not difficult to imagine the anxiety with which those responsible for the management of the fiscal affairs of the state viewed the situation. Since 1904 those in authority had given repeated warnings.

The increase in expenditures continued in spite of the earnest efforts of those members of the legislature responsible for appropriations to keep them within the estimated receipts. This increase, while naturally varying from year to year, was consistent, and was not due to periodical extravagance.

The management of public institutions had been good generally, and in many instances excellent, therefore not much could be expected from economy. Curtailment of the state's activities did not seem advisable, and in fact would probably have been impossible in the face of a positive and increasing demand for expansion in these activities, particularly with reference to state roads and bridges, and penal, reformatory, educational and charitable institutions.

The valuation of the state had steadily increased from \$346,554,239 in 1892 to \$552,991,854 in 1911, showing the very satisfactory increase of \$206,437,615 for the twenty years, or an average increase of more than ten millions of dollars per annum.

Some of this increase was undoubtedly due to a more accurate valuation as is indicated by the fact that the total valuation of the state decreased slightly immediately after the passage of the act changing the method of valuation in 1905. The valuation of personalty in the city of Providence increased approximately \$12,000,000 in 1906, but this was not sufficient to counteract the general decline. This increase in the assessed value of personalty was due to the taxation of the tangible personalty of corporations where found. The falling off in

* \$300,000.....Jan. 1904
 320,000.....due in 1914
 50,000.....recently bought.

valuation unquestionably indicates an attempt to avoid the state tax in part by depressing valuations. The necessity for revenue and the prompt realization of the inadvisability of this course immediately corrected this bad practice, and the total valuation increased with even greater rapidity than before, as is shown by the valuation by years.

TOTAL VALUATION BY YEARS

1892	\$346,544,239.00
1893	356,556,712.00
1894	369,365,668.00
1895	381,135,051.00
1896	383,493,524.00
1897	384,817,957.00
1898	390,912,580.00
1899	399,897,333.00
1900	407,404,772.00
1901	413,209,603.00
1902	424,398,204.00
1903	432,993,361.00
1904	444,144,066.00
1905	477,392,908.00
1906	477,354,708.00
1907	488,978,107.00
1908	497,547,560.00
1909	511,960,122.00
1910	538,082,858.00
1911	552,991,854.00

The average local tax rate has increased with almost perfect regularity from \$1.183 in 1892 to \$1.462 for each \$100 of valuation in 1911.

1892	1.183
1893	1.256
1894	1.272
1895	1.306
1896	1.319
1897	1.339
1898	1.354
1899	1.373
1900	1.35
1901	1.358
1902	1.391
1903	1.419

1904	1.415
1905	1.42
1906	1.443
1907	1.443
1908	1.468
1909	1.455
1910	1.44
1911	1.462

Average tax rate for twenty years \$1.373.

The state tax rate has remained stationary since 1889.

The old method of meeting the difficulty of insufficient revenue by increasing the state tax rate, although proposed by some, did not meet with general approval, for from eleven per cent. to thirty per cent. of the local revenue from direct taxation was already taken by the state. In fact, the opposition to this method was so great that it was not even proposed in the legislature.

The principal sources of state revenue were:

The direct tax of eighteen cents on the assessed valuation of the cities and towns.

A tax of four mills on savings deposits.

A tax of two per cent. on the gross receipts of insurance companies.

A gross earnings tax of one per cent. on telephone, telegraph, express and street railway companies.

Rentals from the leasing of oyster grounds.

A portion of the fees for licenses granted by the municipalities, court fees, fines, etc.

Fees for issuing charters of corporations.

The increase in the amount of revenue from these sources, although great, was not sufficient to keep pace with the demand for revenue.

The direct tax shows an increase for twenty years from \$591,375.13 to \$955,104.26. The revenue from savings deposits has increased from \$185,421.92 to \$502,020.60 indicating an increase in savings deposits of more than \$50,000,000. The tax on the public service corporations subject to the gross earnings tax has increased from \$3,700 to \$113,523.66. The principal part of this increase after 1898 was due to the operation of the

street railway franchise tax law, passed June, 1898 (General Laws, chapter 216). License and other fees have increased during the same period approximately \$100,000, and the rentals from the oyster grounds approximately \$120,000.

(See table on pages 262 and 263.)

These increases are all consistent. It is quite evident, I think, that new sources of revenue had to be developed to meet the demand for additional revenue.

This view of the matter was held by the legislature of 1909, and a serious attempt to improve our revenue system and procure additional revenue was begun by the appointment of a joint special committee, "created for the purpose of taking into consideration the laws of the state relative to taxation," and directed to report to the general assembly "such recommendations and changes in the existing law as said committee may deem advisable." The committee was given ample powers, and a sufficient appropriation for its purpose.

The following recommendations, made by the joint special committee to the legislature of 1911,* will, I think, give a concise and correct idea both of the difficulties of our situation and the remedies proposed:

"A law creating the office of state tax commissioner with substantial advisory and supervisory powers over local assessments.

"A state tax on the capital stock of domestic incorporated companies at the rate of forty cents on each one hundred dollars of the market or fair cash value of such stock and the funded and floating indebtedness, less deductions for local taxation of realty and personalty, taxed to the corporations.

"A law relieving intangible personal property from the burden of the general property tax by substituting a rate of forty cents upon each one hundred dollars valuation of such property, the income therefrom to be apportioned between the city or town where assessed, and the state.

"A state tax on collateral inheritances.

"The separate listing of realty and personalty for assessment purposes under the headings of land, improvements, tangible personalty, and intangible personalty.

* The joint special committee reported to the legislature of 1910. No action was taken, however, except to recommit the whole matter to the committee for further investigation and consideration.

TABLE D. — *Principal Sources of State Revenues Showing Variations by Years.*

Year	State Tax		Savings Banks & Trust Co's.		Insurance Companies			Courts		Charters	
1892	\$591,375.13	51.95*	\$185,421.92	16.29*	\$113,265.70	9.95*	\$38,004.75	3.34*	\$18,323.00	1.61*	
1893	647,432.52	48.37	316,084.81†	23.62	120,141.46	8.98	28,507.45	2.13	22,275.00	1.66	
1894	647,225.26	48.49	313,373.55	23.48	126,151.67	9.45	30,174.78	2.26	10,850.00	0.81	
1895	647,189.91	48.28	311,118.15	23.21	133,173.35	9.94	32,881.20	2.45	11,880.00	0.89	
1896	640,906.23	45.65	319,199.71	22.74	138,853.47	9.90	42,080.29	2.99	20,070.00	1.43	
1897	641,129.06	45.61	320,718.21	22.81	141,500.29	10.07	31,489.89	2.24	13,490.00	0.96	
1898	641,610.61	42.72	323,708.02	21.56	148,154.94	9.87	41,943.03	2.79	14,025.00	0.93	
1899	642,545.10	44.65	331,815.13	23.06	147,065.16	10.22	38,864.13	2.70	27,000.00	1.88	
1900	644,118.37	43.47	351,966.46	23.76	157,612.55	10.64	44,570.78	3.01	14,140.00	0.95	
1901	645,989.34	40.96	372,201.28	23.60	166,812.76	10.58	36,894.80	2.33	22,961.00	1.46	
1902	646,072.42	43.94	379,863.85	25.48	169,485.13	11.37	35,523.72	2.38	23,940.00	1.61	
1903	646,109.95	38.73	405,582.81	24.31	184,336.12	11.05	39,928.83	2.39	33,097.00	1.98	
1904	639,857.98	38.47	422,334.26	25.39	200,956.12	12.20	45,800.73	2.75	24,459.00	1.47	
1905	798,590.10	39.89	435,299.49	21.74	219,042.37	10.94	40,969.11	2.06	38,217.50	1.91	
1906	849,985.95	40.92	452,786.59	21.80	235,891.30	11.36	32,626.07	1.67	30,980.00	1.49	
1907	870,952.85	40.20	488,526.34	22.55	249,145.06	11.50	40,026.38	1.85	21,555.00	0.99	
1908	886,857.60	40.62	447,331.99	20.49	274,567.37	12.58	46,602.40	2.13	31,649.40	1.45	
1909	868,306.93	37.47	465,390.03	20.08	283,245.15	12.22	56,876.06	2.45	25,943.00	1.12	
1910	960,421.38	38.26	484,034.49	19.28	306,183.27	12.20	66,431.60	2.65	23,750.40	0.95	
1911	955,104.26	37.55	502,020.60	19.74	330,957.00	13.01	56,967.12	2.19	23,635.00	1.17	

* Percentage of Total Income.

† Rate on savings deposits increased from 2½ to 4 mills.

TABLE D.—Principal Sources of State Revenues Showing Variations by Years.—Con.

Year	Telephone: Telegraph: Express: Street Railroads	Shell Fisheries: Oyster Grounds	Town Councils	Miscellaneous	Total Income
1892	Tel: 700.16 33*	\$6,781.55	\$110,891.34	\$70,485.85	\$1,138,199.40
1893	4,037.34 30	6,491.25	108,059.42	85,390.47	1,338,419.72
1894	4,449.79 33	6,675.55	105,274.93	90,551.64	1,834,727.17
1895	4,260.58 32	6,434.55	106,340.84	87,114.54	1,940,392.62
1896	4,685.55 33	6,569.57	109,135.13	122,393.87	1,403,843.82
1897	4,622.39 33	7,016.74	108,078.99	137,634.57	1,405,680.14
1898	Tel: 22,570.11 Ex: 1.50 St. R.	7,690.07	110,968.34	191,101.70	1,501,771.82
1899	24,168.81 1.68	13,558.46	115,430.32	98,523.40	1,438,970.51
1900	30,076.68 2.03	20,973.08	116,257.76	101,764.07	1,481,479.75
1901	34,278.36 2.17	25,250.32	156,539.14	116,367.91	1,577,294.41
1902	37,473.93 2.52	34,162.35	52,375.27	111,725.29	1,490,621.96
1903	46,817.36 2.81	42,645.51	145,002.12	124,706.83	1,668,224.53
1904	57,293.08 3.44	42,252.58	115,546.12	114,604.95	1,663,104.82
1905	69,432.60 3.47	47,087.26	128,995.76	224,316.98	2,001,951.17
1906	86,365.56 4.11	59,016.55	125,126.56	205,457.43	2,077,236.11
1907	92,934.98 4.29	85,004.46	139,601.64	178,879.65	2,166,625.36
1908	99,221.31 4.55	92,867.65	137,855.49	166,093.38	2,183,046.59
1909	96,960.39 4.31	106,839.48	169,230.56	241,670.04	2,317,511.94
1910	108,072.29 4.30	124,864.88	178,334.84	258,399.69	2,510,492.84
1911	113,523.66 4.46	119,590.46	178,480.89	258,394.17	2,543,663.16

* Percentage of Total Income.

"The systematic revaluation of ratable property at stated periods.

"A uniform date of assessment for all cities and towns.

"The taxation of tangible personal property in the city or town where located.

"The elimination of debt exemptions from assessments upon all personal property except credits.

"Complete assessors plats as a part of the public records in cities and towns.

"A minimum wage for city and town assessors.

"The taxation of real estate mortgages as intangible personal property at the rate of forty cents on each one hundred dollars of valuation."

The acts recommended by the joint special committee embodied only such of its recommendations as seemed most urgent.

The most important provisions of the special committee's proposed acts were for:

The establishment of a state tax department with advisory and supervisory powers; the imposition of a state tax upon the corporate excess of manufacturing and mercantile corporations doing business for profit in the state, and a state tax upon the gross earnings of steam and electric railways, sleeping and parlor car companies, and the exemption of the securities of such corporations, and of savings deposits from local taxation; a collateral inheritance tax; a provision relieving intangible personal property from the operation of the general property tax and fixing a flat rate upon that class of property; the separate valuation of land, improvements, tangible and intangible personalty.

None of the acts as recommended by the committee were approved by the legislature of 1910 or 1911, but the committee was instructed by the 1911 house of representatives to submit an act equitably taxing all corporations. These instructions, apparently simple and so eminently fair and proper as to be unnecessary, take on a very different meaning when construed in connection with chapter 216 of the general laws which refers to the taxation of street railways, and in part says: "and the payments in this chapter provided for shall be in lieu and

satisfaction of all other taxes, excises, burthens or impositions whatsoever by or under authority of this state or of any law thereof upon the property, income, rights, privileges or franchises of such companies mentioned in this section, their successors and assigns as shall accept the provisions of this chapter, excepting such as are now imposed upon such property, incomes, rights, privileges or franchises and such as may hereafter be imposed generally and without discrimination upon the property, income, rights, privileges, or franchises of all persons and corporations."

This section of chapter 216 was interpreted to mean that if the street railway corporations were taxed at all it must be by the same method and at the same rate as all other corporations and persons. The impracticability of taxing all corporations and persons by the same method and at the same rate is so apparent that to mention it is sufficient.

The committee, however, in compliance with its instructions, prepared an act applying the corporate excess method to all corporations, and also a substitute act which it recommended for passage, identical with the first, except that it applied the corporate excess to banking institutions, manufacturing and mercantile corporations only, and the gross earnings tax to public service corporations. This act was so much superior to that prepared under the instructions of the house of representatives that it was considered by the legislature to the exclusion of the first, and finally with numerous amendments and additions became a law.

The legislative history of tax reform is in general so similar that there would be little profit in recounting the various steps which led eventually to the passage of the tax act of 1912, so called, which you have before you, and I have referred only to some of the important conditions which either had a direct effect upon the legislation, or a knowledge of which is necessary to account for certain features of the act which may seem unusual.

It is necessary for me to call your attention briefly to certain conditions which existed or still exist in Rhode Island of a purely local nature, and of little general interest perhaps, in

order that you may more readily understand the problem which confronted the state, and the method employed in beginning a solution.

The constitution of Rhode Island says concerning taxation only this: "the burdens of the state ought to be fairly distributed among its citizens," and "The general assembly shall, from time to time, provide for making new valuations of property for the assessment of taxes in such manner as they may deem best."

You should bear in mind that Rhode Island is territorially small (1,084 sq. miles); that it is densely populated, having a population in 1910 of 542,610, or 500 per sq. mile of land area. There are six cities with an aggregate population of 385,123, and thirty-two towns with a total population of only 127,487. There are no forests or mines, no public land except submerged land; agricultural interests are of necessity comparatively small, as are also the fishing interests. There are but two taxes, state and municipal; we have no county organizations in the usual sense, therefore no county taxes. Rhode Island is purely a manufacturing and commercial state. The only revenue received by the state from what may be called its natural resources is from the leasing of submerged land belonging to the state for the purpose of growing oysters. It is thus apparent, I think, that our tax problems are more nearly comparable to those of a large municipality than to those of most states.

LOCAL TAXATION

The general property tax, augmented by certain local franchise taxes and license fees, was employed for municipal taxation. The income from the franchise taxes and license fees reaches considerable proportions in the cities and larger towns, but in the others it is negligible.

There are thirty-eight separate municipal taxing jurisdictions, each electing or appointing its assessors and collectors of taxes and each fixing for itself the time of assessment and the rate of taxation. There is no centralized or state supervision of local assessments.

The law requires that all ratable property both real and personal shall be valued at its full and fair cash value, but the interpretation of this clause of the statute by the local assessors has resulted in an inequality in valuation, which is quite apparent.

The principal defects in our system of local taxation are easily discernible. The taxes are assessed at different times, no two jurisdictions assessing on the same day except by accident. No two use the same method of valuation, and if there is any similarity whatever it is merely a coincidence.

The valuations vary between the different jurisdictions from a basis of sixty per cent. to a basis of 100 per cent., and frequently different classes of property within the same jurisdiction vary to an even greater extent. The demand for additional revenue has forced an increase in valuation in some jurisdictions, but the tendency has been, wherever possible, to depress valuations and to increase the rate of taxation, thereby reducing the state tax, which from 1889 to 1912 was at the rate of eighteen cents on each \$100 of the valuation of the cities and towns. Where growth has been rapid the inequalities incident to this practice of undervaluation are noticeable.

Formerly the law did not require separate valuation of land, buildings and improvements, or tangible and intangible personalty. There were but two assessed values given, "Real Estate" and "Personal Property." It allowed debts to be offset against all personal property, and while the tangible personal property of corporations was taxed where found, the tangible personal property of individuals and copartnerships was taxed where the individuals resided, with the result that a large portion of this class of personalty escaped taxation altogether. The same difficulties were experienced with regard to intangible property that are usually found where the general property tax is in operation with a fairly high tax rate.

These are briefly and very generally the principal defects in local taxation which it was hoped our recent legislation would remedy, if not entirely correct.

The remedies for these defects as embodied in the tax act of 1912 are: "A nonpartisan state tax commission of three mem-

bers, with advisory powers only; taxation of tangible personal property where found without regard to ownership, with no offset for indebtedness, indebtedness to be offset against money on hand or on deposit and credits only; separate valuation of land, improvements, tangible and intangible personalty; a reduction in the rate of the state tax from eighteen cents to nine cents on each \$100 valuation; and a flat rate of four mills on intangibles."

The returns are at present very meagre, and sufficient time has not elapsed to say positively what beneficial results have been, or may be eventually, accomplished. However, the inadequacy of some of the remedial provisions to accomplish their purpose is positive.

A state tax commission with advisory powers only will accomplish little in the equalization of valuations between different taxing jurisdictions, and that indirectly, but something may be done in equalizing valuations within a given jurisdiction. A uniform date of assessment, which is generally acknowledged to be advisable if not necessary, can only be obtained by positive legislative enactment. An advisory commission can accomplish nothing in this regard. Local considerations seem to outweigh the prospective general benefit, and each jurisdiction expects the others to accommodate themselves to its date of assessment.

Much may be done, however, in other ways. The commission is able to furnish valuable assistance and information, and under our law the resources of the attorney general's office become available to local assessors through the commission. Supervisory and revisory powers are necessary to accomplish the best results.

The separate valuation of land and improvements seems to have been beneficial, and has stimulated, so far as we have had an opportunity to form an opinion from the returns already made, a more or less systematic revaluation. The separation of tangible and intangible personalty seems also to be advantageous, as undervaluations are more easily noted and excite criticism more readily. The taxation of tangible personalty where found with no offset for debts has unquestionably increased largely the amount of such property taxed.

It is not entirely clear, however, from the information now available, what the ultimate result will be. The indications are that it is an improvement over the old method but the tendency seems to be to impose this tax more vigorously against some classes of tangible personalty than others, the mobility of tangible personalty generally and the different dates of assessment making it especially easy to escape taxation on this property in Rhode Island, and also advantageous when the rate is comparatively high.

No opinion can, as yet, be formed as to the effect of the four mill rate on intangibles. In one instance it has failed utterly, making a large increase in the local tax rate necessary to keep up the local revenue, but whether the failure is due to a faulty system or bad administration, it is impossible to say definitely at this time. I am very much inclined, however, to attribute the failure to bad administration. The beneficial effect of a low rate naturally would not be immediate and my opinion, so far as it is of value, as based upon the few returns now available, is that eventually it will prove satisfactory.¹

There is one element which should be given very careful consideration in this regard, which, I believe, is not present in other states imposing a low tax rate on intangibles, and that is the great quantities of securities exempt under our law from local taxation because of the state tax on corporations and savings deposits. If the returns from the corporate excess tax, gross earnings tax and tax on bank shares be taken into consideration a large increase in intangible property will be

¹ During the reading of the paper, and following this paragraph, Mr. Bliss said:

"I have a dispatch this morning giving the results of the assessment of the city of Providence, which contains one-half of the population and almost half the valuation of the state, in which the assessment of personal property has increased from 71 to 110 millions under the operation of the new law. If I had known that when I wrote that paragraph I would have made my statement stronger. The total valuation of the personalty last year was 71 millions; and the value of intangibles alone under the flat rate is 61 millions this year."

shown, nearly all of which was hitherto untouched by taxation.²

It may be of interest to note, in passing, that the market value of the stocks and bonds of domestic corporations subject to the corporate excess or gross earnings tax showed immediately substantial gains, which could be accounted for only by their exemption from taxation, notwithstanding the fact that this class of securities had hitherto practically escaped taxation.

The reduction in the state tax rate has removed to a considerable extent, if not entirely, the tendency to depress local valuations for the purpose of escaping the state tax. Undervaluations where they exist may be very easily accounted for in other ways. This reduction was also intended to compensate the municipalities for a possible loss in local revenue incident to the reduction in the rate on intangibles, and it has, so far as can be judged at present, accomplished its purpose in this respect, except in the case noted.

STATE REVENUE

The effect of the tax act of 1912 upon the state revenue can be treated with much more exactness than its effect on local revenues. Positive data is at hand from which at least fairly accurate estimates can be made. The assessments provided for in the act were made in June, the tax became due and payable July 1st, and practically the entire amount has been collected.

The revenue derived from sources hitherto untaxed either wholly or in part is as follows:

Bank shares.....	\$70,878.58
Manufacturing, mercantile and miscellaneous corporations	542,701.22
Public service corporations.....	200,576.44
Tax on oysters on the beds.....	13,334.15
	<hr/>
	\$827,490.39

² Assessments already filed show this amount to be more than \$225,000,000.

There are two provisions in the act which reduced the state revenue; the reduction of the rate of the state tax from eighteen to nine cents on each \$100 of the valuation of the several cities and towns, and the reduction of the franchise tax on mutual insurance companies from two to one per cent. of their gross premiums.

If local valuations remained the same the reduction in the state tax should necessarily be fifty per cent., but it was confidently expected that there would be a considerable increase in these valuations because of the change in the method of taxing tangible personalty. This expectation has been realized, and from the returns already made, and from such other information as is available, it appears now that the reduction will not be more than forty-five per cent. and possibly much less. The maximum loss on this account, considering the large increase in local valuations, will not exceed \$470,000. The maximum loss from the decrease in rate on mutual insurance companies will not exceed \$83,000, it will, in fact, closely approximate that figure.

The reduction of the rate on the gross premiums of mutual insurance companies was to adjust more equitably the tax between the different classes of insurance companies. The mutuals were paying more than five times as much tax on the net cost of insurance to the insured as were the stock companies. Their taxes amounted to considerably more than their losses and was the largest item of expense which they had to meet. This reduction in rate has proved only a partial solution of the difficulty, and other changes in the law relative to the taxation of insurance companies are necessary to equitably tax the several classes of such companies. The business methods and the kind of business transacted are so dissimilar that simply varying the rate on gross premiums does not result in an equitable distribution of the tax burden. The tax on insurance companies is a franchise tax and its payment does not relieve the securities or surplus of the insurance companies from local taxation. This provision was not originally a part of the act, but was included

for convenience of reference, and for the purpose of keeping within the limits of one chapter all the amendments to existing tax laws.

The taxation of oysters on beds leased from the state presented a problem of considerable difficulty, which was finally adjusted by the imposition of a tax equal to ten per cent. of the rate paid. This amount was assumed to be a tax of one dollar for each \$100 of the valuation of oysters planted or growing on the beds, which is the average tax rate of the municipal taxing jurisdictions contiguous to which the beds are located. This matter, of necessity, is of little interest except to a few seaboard states, the amount of revenue produced is small, and therefore, I will dismiss it without further comment.

BANK SHARES

The shares of stock of all trust companies or banks (other than savings banks) existing under the laws of the United States or the state of Rhode Island and located within the state, are assessed to the owners thereof at their fair cash value on the last business day of the preceding year, "first deducting therefrom the proportionate part of the fair cash value of the real estate, and also the fair cash value of any bonds of the United States or the state of Rhode Island then belonging to such trust company, bank or banking institution," and this remainder is taxed "at the uniform rate of forty cents for each one hundred dollars of such assessed valuation, being the same rate as other monied capital in the hands of individual citizens of this state is by law taxed." The banking institutions are notified by the commission of the value placed upon their shares on or before May 1st, and they may appear before the commission, and be heard, if the values fixed are deemed incorrect.

The tax is assessed on the 20th day of June, is payable July 1st, and is paid by the banking institutions as agent for the stockholders to the general treasurer. The banks may collect the tax from the stockholders or not as they see

fit, they having "a lien on all shares, rights and property of any shareholders in the corporate property for the tax paid on such shareholders' shares." Approximately \$70,000 in revenue was derived from this source.

One inequality incident to this method is due to the deduction allowed for United States and state bonds. Certain banking institutions having their entire capital invested in United States bonds show no excess value and consequently there is no tax; while others carrying small investments in United States or state bonds, or none at all, show a large excess value and consequently a large tax. The tax per share necessarily shows a wide variation, ranging from nothing to eighty-one cents on the basis of \$100 per share. Another and more serious inequality is introduced because certain banking institutions, instead of owning their real estate outright, hold it through a separate corporation, all of the stock and bonds of which are held by the bank. A deduction is allowed for the value of the real estate owned, but not for the value of stock or bonds in a holding company. The discrepancies thus introduced reach in some instances considerable proportions, the largest approximately \$4,000.

The stocks, bonds and evidences of indebtedness which form a part of the corporate excess of corporations subject to the corporate excess tax, and of those corporations paying a gross earnings tax, are exempt from taxation in the hands of the holder, and are also allowed to be deducted from the corporate excess except when held by banks. The reason for this exception, whether valid or not, is that without it the market for state bonds would be practically destroyed. The rate of interest borne by state bonds is considerably lower than the rates borne by other securities generally carried by banking institutions, and it was thought that if the banks were allowed to deduct the value of such stocks, bonds and evidences of indebtedness of corporations which paid a corporate excess or gross earnings tax, it would no longer be advantageous for them to hold state bonds, and in addition the amount of revenue obtained would be greatly diminished, if it did not disappear entirely.

The assessment of this tax is comparatively easy, the value of the shares of stock is not difficult to determine, and the value of bonds and real estate which constitute the deductions is also readily determined. The amount of revenue produced is not large considering the amount of capital invested \$30,677,904.00.

PUBLIC SERVICE CORPORATIONS

The tax upon the gross earnings of public service corporations varies from one to three per cent. All except telephone, telegraph, cable and express corporations pay one per cent., and this tax is "in lieu of all other taxation upon the intangible personal property of every such corporation the property of which is operated in this state by any such corporation so liable to such gross earnings tax." The tax of two per centum on the gross earnings of telegraph, cable and telephone corporations, and the tax of three per centum of the gross earnings of express corporations, are also "in lieu of all other taxes upon their lines, cables, conduits, ducts, pipes, machines and machinery and other personal property or estate used exclusively in their business within the state." The gross earnings taxes imposed by the act are not franchise taxes, but are in lieu of other taxes to which the corporations themselves or their stockholders formerly were liable.

The amount of revenue produced by the gross earnings taxes was \$200,576.44, but \$16,357.63 was formerly collected from telegraph, telephone and express corporations, giving a net increase of revenue from gross earnings taxes of \$184,218.81 under the new law. The assessment of the tax is not difficult, and the operation of the law is satisfactory, no inequalities worthy of notice having developed thus far. Such difficulties as have been encountered are due to some peculiarities in methods employed by small corporations, which are in effect incorporated mutual associations to provide one or another public utility for a small community.

From the standpoint of ease of administration and the production of revenue the gross earnings tax has met every expectation.

**MANUFACTURING, MERCANTILE AND MISCELLANEOUS
CORPORATIONS**

The amount of capital invested in manufacturing and mercantile corporations was of course known to be very great, it was apparent to even the most casual observer, and it did not require the services of a trained observer to discover that it was almost entirely escaping local taxation. It was generally conceded that if this great quantity of intangible property could be positively and directly reached at its source, a great advance would be made towards a more equitable distribution of the tax burdens generally, and a large amount of revenue would be obtained as well. One serious consideration, if not the most serious, in developing a system of taxation for this class of property, was the objection on the part of many corporations to publicity in regard to the amount of business transacted and profits made. The necessity for additional revenue was generally recognized and there was not as great opposition to the payment of a tax as anxiety regarding the system to be employed.

The objection to publicity was not because of excessive profits, or the reverse, but because of an advantage, real or imagined, which would be gained by competitors who would know the amount of business transacted or profits made if a system of taxing gross receipts or net receipts was employed.

A tax on corporate excess, as provided in the tax act of 1912, undoubtedly exposes to a certain extent the business of the corporation affected, but it reduces the danger, if in reality it is a danger, to such an extent that it is not seriously objectionable.

The returns made to the commission are confidential, and nothing but the name of the corporation paying the tax, and the amount of the tax, is a public record.

The returns made by the corporations were, almost without exception, compiled with great care and scrupulous honesty. Every assistance was rendered the commission, and to the co-operation of the corporations themselves is due to a great extent the successful operation of this feature of the law. The time allowed for making returns and appraising securities was so limited that general hostility on the part of the corporations might have interposed difficulties almost, if not quite, insurmountable.

The amount of revenue produced by this tax was \$542,701.22, or a sum equivalent to more than twenty per cent. of the total revenue of the state for the preceding year, and greater than the estimated revenue for the current fiscal year from the state tax on several cities and towns.

Although the amount was not as large as was expected by many, it closely approximated the estimate made by the framers of the act.

It represents a tax upon \$135,675,305, an amount which exceeds the total valuation of all personal property in the state for the preceding fiscal year. Taken in connection with the intangible personal property valuation represented by the tax on bank shares, an intangible personal property valuation of \$153,395,200 is obtained, an amount which exceeds the assessed valuation of all the personal property in the state in 1911 by more than twenty-five per cent.

The features of this tax which require the most careful consideration are the methods of determining the corporate excess, and in the case of corporations transacting business both within and without the state, the method of determining the proportion of the corporate excess attributable to Rhode Island.

The provisions of the law in these respects are as follows:

"To the value of the total number of its shares outstanding there shall be added, as part of the measure of value of the property of such corporation: (a) the total value of its outstanding bonded indebtedness, if any; (b) the total value of its outstanding indebtedness evidenced by debentures, if

any; (c) the total value of its other indebtedness, if any, incurred for the acquisition of real estate or of tangible personal property and such other of its indebtedness as such corporation shall return; (d) and such other of its indebtedness, if any, as is a cover for a division of its profits.

"In the case of corporations also carrying on business outside of this state, a portion of the value ascertained under the prior clause shall be apportioned to this state as follows: In the case of corporations deriving their profits principally from the ownership, sale, or rental of real estate, and in the case of manufacturing corporations and such other corporations as derive their profits principally from the sale or use of tangible personal property, such a proportion as the fair cash value of their real estate and tangible personal property in this state on December thirty-first next preceding bears to the fair cash value of their entire real estate and tangible personal property then used in their business without any deduction on account of any mortgage or incumbrance thereon; in the case of corporations deriving their profits principally from the holding or sale of intangible property such a proportion as their gross receipts for the year ending on December thirty-first next preceding in this state bears to their total gross receipts for such year both within and without this state; and in any case to which these proportions are not equitably applicable, in such proportion as is equitable. And said board shall have power to require, from time to time, such reports, sworn to as herein before provided, as will give said board the information necessary to make said apportionment.

"From the total value ascertained under the first clause of this section; or, in the case of corporations also carrying on business outside of this state, from the portion of the value apportioned to this state under the next preceding clause; there shall be deducted the assessed value of their real estate and tangible personal property located in this state as last assessed for local or state taxation, including in the deduction the value of any such property exempt from taxation by local authority."

Authority is also given the board to make proper allowance for such property as is exempt from taxation without the state, or not taxable in the state, by deductions either from the total corporate excess or from the portion assigned to Rhode Island. Furthermore, all securities and evidences of indebtedness of a corporation which form a part of the corporate excess as thus determined are exempt from taxation in the hands of the holder.

It is the intention of the law to reach directly that part of the value represented by the stock, bonds, indebtedness incurred for tangible property, bills and accounts receivable, and cash which has not been locally taxed in the form of real estate and tangible personalty.

The taxation of all tangible property where found with no offset for indebtedness makes the addition of indebtedness incurred for the acquisition of tangible property necessary. As this indebtedness is a function of the value of the stock, the deduction allowed for the assessed value of tangible property would be in effect a double deduction unless the indebtedness were added. To follow this through the various steps taken in the delivery of manufactured goods from the raw material to the finished product would carry me far beyond the limit of my time and your patience. I will simply say, therefore, that no double taxation appears except where corporations sell to individuals or copartnerships; and there is no double taxation then except in cases where the individuals or copartnerships have no intangible personalty against which indebtedness may be offset. This difficulty is inherent to the system of taxing tangible property where found with no offset for indebtedness.

It was the intention to positively fix the methods to be employed in determining the proportion of the corporate excess of corporations doing business both within and without the state attributable to Rhode Island, by provisions in the law. The law as originally passed contained provisions for determining this proportion for three different classes of corporations—those the principal business of which was dealing in real estate, tangible personalty, and intangible

personalty. A covering clause followed these provisions which read: "in any other case to which these proportions are not equitably applicable, in such proportion as is equitable." The commission immediately found that any positively rigid method of determining the proportion was not only impracticable but also would be inequitable. The legislature promptly removed this difficulty by striking out the word "other" in the clause just quoted so that it read: "in any case to which these proportions are not equitably applicable, in such proportion as is equitable."

The adjustment of the proportions under the provisions of the law as they now exist is a matter of no little difficulty and requires both judgment and a wide knowledge of the conditions surrounding the various classes of business affected. It not infrequently occurred that corporations transacted several kinds of business at the same time. This condition introduced questions of considerable difficulty, and the solution depended upon the judgment of the commission, and except in a very few cases the solution reached has been satisfactory to all concerned. When the conditions under which foreign corporations transact business become better understood, and statistics become available upon which accurate calculations can be based, modifications in the law will undoubtedly be made which will circumscribe the powers of the commission in this regard, thus relieving it from a considerable responsibility and at the same time making the operation of the law more positive.

Provisions, which seem to be adequate, are embodied in the law for appeals to the courts for adjusting either the values placed upon the securities, the amount of the tax, or the methods employed. It is also provided that hearings must be given on application within a fixed time, to corporations desiring to be heard in reference to these matters.

The commission is given ample authority to require sufficient returns, examine books, and to obtain all necessary information. Adequate penalties are provided for non-compliance with the law, both for the commissioners and employees, and for the officials of corporations.

There is no provision, however, for the commission to correct errors discovered after the tax has been assessed. This is a serious defect which will undoubtedly be remedied before the next assessment is made.

To deny that the difficulties of administration of the tax act of 1912 are great would be far from the truth, but that they were not insurmountable is shown by the fact that the act was approved February 15th; the commissioners qualified on the 20th; the returns were required to be made on or before April 1st; notice of the values placed upon the capital stock of the corporations affected were required to be mailed on or before May 1st; the tax was assessed in June, and the tax was payable on July 1st.

There was no trained clerical force at hand; the commission had temporary offices, with scant furniture, for several weeks, yet the tax was assessed according to law and practically the whole amount is collected.

I think few states have attempted such radical changes in their revenue systems with so short a period of time within which they were to become operative. Positive reductions in existing revenue were made under the assumption that the provisions of the new law would provide sufficient revenue not only to compensate for the loss but also to meet to a considerable extent, if not wholly, the demand for additional revenue. So far as it is possible to judge at the present time from the information available the assumption was correct.

FIFTH SESSION

WEDNESDAY AFTERNOON, SEPTEMBER 4, 1912

CHAIRMAN, LAWSON PURDY, NEW YORK CITY

PROGRAM

1. COMMITTEE ON INHERITANCE TAXES.
Chairman, William H. Corbin, State Tax Commissioner, Hartford, Conn.
2. INHERITANCE TAXATION IN THE STATE OF NEW YORK.
Lawson Purdy, President Department of Taxes and Assessments New York City.
3. TAXATION OF STOCKS AND SECURITIES UNDER THE INHERITANCE TAX LAW.
John Harrington, Inheritance Tax Investigator, Wisconsin Tax Commission, Madison, Wis.
4. DISCUSSION.
5. THE WISCONSIN INCOME TAX.
Nils P. Haugen, Chairman Wisconsin Tax Commission, Madison, Wis.
6. DISCUSSION.

REPORT OF COMMITTEE ON INHERITANCE TAXES

Your standing committee on a model inheritance tax law is pleased to report further progress along approved lines, and feels confident that recent desirable changes in several state laws are the direct result of the attitude taken by the National Tax Association against the double taxation of inheritances.

In our report, which was made to the conference held in Richmond last year, the meed of praise was given to New York state for the complete reversal of its previous selfish double taxation policy, which was brought about by the passage of the inheritance tax law, which went into operation July 21, 1911. New York for many years had imposed an inheritance tax on all property actually or constructively in the state, which included the shares of stock of all New York corporations when held by estates of nonresident decedents wherever located. In addition to this policy, the statute of 1910 imposed very burdensome rates which reached a maximum of twenty-five per cent., and were exceeded only by those of Oklahoma, which at that time were held to be practically confiscatory.

The New York law of 1911 taxes all the tangible property physically within the state, and the intangible property of residents only.

In these progressive times (and on this progressive day) it is a great pleasure for your committee to be able to report that the state of Massachusetts, which has been an offender in double taxation almost as flagrant as New York, in the methods employed and the retaliatory influence upon other states, has surpassed New York by enacting a law which makes any form of double taxation of inheritances impossible so far as Massachusetts is concerned. The taxation of tangible property, such as merchandise, etc., in New York state makes it possible that such property may be taxed twice when included in the inventory for taxation at the domicile of the decedent. Massachusetts, however, taxes the real and tangible property within the

state and all intangible property of residents, and only the real property of a nonresident decedent within the state.

This long step towards the taxation millennium is apparently the result of the influence of the Massachusetts tax commissioner's office. Commissioner W. D. T. Trefry in his annual report to the state in January, 1912, made an earnest appeal for the change, as follows:

"The development of the taxation of legacies and successions by the different states during the last few years has been very rapid, and now fully three-fourths of the states employ this form of taxation.

"One result of the adoption of this tax by so many different jurisdictions is great confusion and frequent injustice. The states very generally have undertaken to tax the estates of resident decedents upon all their personal property wherever located and the estates of nonresident decedents upon their property existing or constructively located within the taxing state. Thus it happens that the estate may be taxed twice with reference to some or all of its personal property. Indeed there are cases where estates have been taxed with reference to the same property three or four times by as many states.

"If all states could agree upon a uniform system a great advance in just taxation would be made. Such an agreement, however, is not an immediate possibility. A consideration of the nature of our legacy tax will indicate, I think, the bounds within which it should be limited. Our tax is not a tax upon property. It is a tax upon the privilege of giving away and of receiving property, by will or by laws of intestate succession. Then why not let our tax apply only to such property as passes in accordance with the laws of this commonwealth? I think this plan is logical and correct. Its adoption by other states would eliminate much double taxation. My recommendation is that in the case of estates of nonresident decedents Massachusetts shall tax only the real estate situated in this commonwealth. Personal property devolves in accordance with the laws of the domicile of the owner; real estate according to the laws of the jurisdiction in which it is situated. Herein is a

clear-cut and fundamental distinction which may well govern our policy. New York has already adopted this line of demarcation and now taxes the estate of a nonresident decedent only with reference to his real estate and chattels in the state of New York. So far as Massachusetts is concerned, we may well omit this kind of property belonging to nonresident estates since its amount is small and the tax it now produces is negligible.

“It is in my judgment a mistaken policy for Massachusetts to tax a New York estate because its owner helped finance a manufactory in this state and thus became the possessor of shares in a Massachusetts corporation. This is not an invitation for foreign capital to come to us. It is quite the contrary.

“We now tax a nonresident estate with reference to any savings or other bank accounts in this commonwealth, and on account of any bonds of whatever nature which at the time of death of the owner are physically present in this commonwealth, and on account of any debt due him from a Massachusetts resident. It may be that such nonresident has never lived in Massachusetts; that he puts his money and securities in safe-keeping of our banks for his convenience only; that his loans to Massachusetts residents are good business for him. And yet we now tax the estate of such person because he has had confidence in our institutions and our citizens. It is to be observed that in this we are taxing a person (or his estate) who bears no allegiance to Massachusetts; who has no duties or obligations towards this commonwealth—a person over whom in his lifetime the laws of Massachusetts have no authority, and for the devolution of whose personal property our laws do not prescribe. The reason why we tax such an estate is because we can,—because courts have said that theoretically such property of such an estate is within our taxing jurisdiction. It is a rule in which might makes right, irrespective of fair dealing. So long as Massachusetts and other states tax legacies and successions in this manner we must expect confusion and complaint against our tax laws. In my judgment confiscation rather than taxation fitly describes this practice.

“A tax law ought not to be made or unmade solely for the

purpose of benefiting any class of institutions. Consideration for the interests of the whole state should govern our tax enactments. My recommendation is made in the belief that the interests of the whole commonwealth, and reasonable treatment of citizens of other states, both demand the change. The nature of inheritance taxation and the principles of law governing the devolution of property are such that it seems clear to me that in our taxation of the estates of nonresident decedents we should reach no further than to the real estate within this commonwealth.

"Four years of experience with our present law convinces me that no hardship will be imposed upon anyone if we now rearrange and in part increase the rates at which the tax is assessed."

The adopted law, effective May 29, 1912, was practically in accordance with Mr. Trefry's recommendation. The rates are practically those of New York, except that the progression in Massachusetts in the taxable amounts differs in three particulars and has five classes where New York has only three. A table showing the different taxable amounts and the increasing rates is given on the next page.

In commenting further since the enactment, Mr. Trefry says:

"The state of Massachusetts has taken the final step towards the elimination of double taxation by exempting all personal property belonging to nonresidents. This is the first state to make such a sweeping change, which, if followed by other states, would place all inheritance taxes on a rational basis.

"The new act also increases the burden of the tax on residents especially in its progressive features, and contains a new provision that taxes shall be paid from capital rather than from income unless otherwise provided in the will."

The proposed law to be voted on by the state of Louisiana while avoiding double taxation of estates of foreign decedents is startling in some of its other features. It is entitled "A true progressive inheritance tax." The rates provided are probably the highest in the union extending from one per

Value of Share.

Beneficiary	\$1,000 or under	Over \$1,000 but not over \$10,000	Over \$10, 000 but not over \$25,000	Over \$25, 000 but not over \$50,000	Over \$50, 000 but not over \$250,000	Over \$250, 000 but not over \$1,000,000
1. Charitable, educational, or religious societies or institutions exempt from local taxation; trusts for charitable purposes to be carried out within Massachusetts; city or town in Massachusetts for public purposes.....	No tax	No tax	No tax	No tax	No tax	No tax
2. Class A. Husband, wife, father, mother, child, adopted child, adoptive parent or mother; lineal descendant, except child; lineal descendant of adopted child; lineal ancestor of adoptive parent; wife or widow of son; husband of daughter.	No tax	No tax	No tax	No tax	No tax	No tax
3. Class A. Lineal ancestor, except father, mother, child, adopted child, adoptive parent or mother; lineal descendant, except child; lineal descendant of adopted child; lineal ancestor of adoptive parent; wife or widow of son; husband of daughter.	No tax	No tax	No tax	No tax	No tax	No tax
4. Class B. Brother, sister, half-sister; half-brother, nephew, niece.....	No tax	No tax	No tax	No tax	No tax	No tax
5. All others, including step children.....	No tax	No tax	No tax	No tax	No tax	No tax

cent. on lineal bequests to thirty per cent. on bequests to strangers in excess of \$500,000. The exemptions are from \$2,000 to \$5,000 to lineals and \$100 to \$1,000 to others. Bequests to charities, etc., are to be exempted in cases where the same do not exceed fifty per cent. of the total estate of the decedent.

The people of Oregon have petitioned for an inheritance tax law which follows very closely that of New York. It proposes to tax all the tangible property within the state of resident or nonresident decedents, and the intangible property of residents only. The rates are graded from one to five per cent. on direct bequests, divided into nine classes; and from two to twelve per cent. on property passing to other than those included in the first group, divided into ten classes.

The new state of Arizona has enacted an inheritance tax law which is reactionary in that it apparently provides for the double taxation of intangible property. The rates are one per cent. on lineal bequests with exemptions of from \$5,000 to \$10,000 and two per cent. on bequests to collateral relatives with exemptions from \$2,000 to \$5,000. Bequests to strangers are taxed from four to six per cent. on amounts graded from ten to fifty with an exemption of \$500.

Attention was called in the report of your committee which was made to the conference in Milwaukee in 1910 to the inheritance tax law of Oklahoma, which provided for the cumulative increase of the tax rate on each one hundred dollars of value of testamentary gifts in excess of five hundred dollars to strangers, so that the tax would apparently amount to the confiscation of any such gift in excess of one hundred thousand dollars above the exemption.

The Oklahoma supreme court in the case of McGannon et al. v. State ex rel. Trapp, has handed down a decision that the law is constitutional, but it repudiates the arithmetical progression in the computation of the tax, and holds that the law provides for but one increase of rate over the primary rate in any class.

The changes in the inheritance tax laws during the past year have been numerically few, owing primarily probably to the fact that only fourteen states had a legislative session in 1912.

Of these there has been no succession tax legislation in the following: Georgia, Kentucky, Maryland, Mississippi, Oregon, Rhode Island, South Carolina, Vermont, and Virginia.

The Arizona and Massachusetts laws have been referred to.

A new law was passed in Louisiana, which re-enacts the previous law, and provides that the tax shall not be imposed when the property inherited, bequeathed, or donated shall have borne its just proportion of taxes prior to the time of such donation, bequest, or inheritance. The law is, also, retroactive.

In New Jersey an amendment to the inheritance tax law was adopted which determines the status of adopted children in providing that an exemption of five hundred dollars should apply to each beneficiary.

The New York law was amended to exempt bequests to corporations organized for enforcing laws relating to children and animals.

While Connecticut had no legislative session in 1912, a change was made by the legislature of 1911, which went into effect September 15th of that year, after the report of the committee had been made, at the Richmond conference. This provides that all bequests, not exceeding five hundred dollars in amount to collateral beneficiaries or strangers, shall be exempted from taxation.

At present thirty-nine states have statutes which impose some form of an inheritance tax payable either to the state or county.

Of these the following states do not either in theory or practice attempt to tax doubly any property of nonresidents except as noted below: Arkansas, Delaware, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Montana, Nebraska, New York, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Virginia, and Wyoming. The practice in most of these states is to tax all the property of resident decedents, and only the real property owned by nonresidents, but in a few of the states the practice is to tax all tangible personal property physically located in the state.

The following states practice double taxation by imposing an

inheritance tax upon shares of stock of their corporations held by estates of nonresident decedents when physically without the state: Arizona, California, Colorado, Connecticut, Idaho, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, North Carolina, Oklahoma, Utah, Vermont, Washington, West Virginia, and Wisconsin.

The following states have no inheritance tax laws whatever: Alabama, Florida, Georgia, Indiana, Mississippi, Nevada, New Mexico, Rhode Island, and South Carolina.

A table summarizing the provisions and rates, as amended to date, is submitted as a part of this report.

The changes which have been made in the elimination of double taxation of inheritances by New York and Massachusetts, and the proposed Louisiana and Oregon laws in spite of the action of Arizona should be of very great encouragement to the members of this association, and all others interested in interstate comity, and give plausible ground for the hope that similar results may be achieved in other states.

While there is no doubt that the influence of this association to this end has been very effective, further desirable changes can be brought about by the education of the citizens of the states and their firm resolve to have legislation enacted which shall bring about more honorable and just conditions. It is probably unnecessary to remind the members of this conference that these results can be greatly expedited by your individual efforts in preaching the gospel of fair and reasonable taxation of inheritances.

WM. H. CORBIN,
LAWSON PURDY,
E. L. HEYDECKER,
A. C. PLEYDELL.

MR. ARTHUR C. PLEYDELL (New Jersey): I would like to ask Mr. Corbin whether he has not been a little unfair to his own state of Connecticut? I understood him to read Connecticut in the list of states chargeable with double taxation, but not to mention that it does have reciprocal provisions.

MR. CORBIN: Connecticut has what a citizen of Connecticut

calls a reciprocal provision, and what a citizen of some other state calls a retaliatory provision. That is, we do to the other fellow what the other fellow does to us. Now that New York has stopped taxing the shares of its corporations held by Connecticut decedents, and Massachusetts has stopped taxing the shares of its corporations held by Connecticut decedents, we no longer tax the shares of Connecticut corporations held by New York and Massachusetts decedents. But we do tax the shares when held in any of these other states that tax the shares of their own corporations when held by Connecticut decedents. Another year I hope to have the chance of explaining a new Connecticut law, passed by the next legislature, which will be similar to the law of Massachusetts and New York. So I would not claim now any honor at all for Connecticut for the application of the commercial golden rule of doing to the other fellow what he does to you.

List of States of the Union with the Main Provisions of Inheritance Laws, If Any, Giving Rates, Exemptions, Etc.

STATES	Dates of earliest and most recent act	Lineal		Collateral		Special features
		Rates %	Exemptions	Rates %	Exemptions	
Alabama, a.	No law					
Alaska	No law					
Arizona	1912	1	5000-10000			
Arkansas	1901	1	5000	2-6	500-5000	Graded and Progressive
California	1883	1-5	10000-24000b	2-6	1000-2000	Progressive
Colorado	1901	2	10000	2-25	500-2000b	Progressive
Connecticut	1909	1	10000c	3-10	500	Progressive
Delaware	1889			5	500bc	Reciprocal
Dist. of Columbia	1909			1-5	500	Graded
Florida	No law					
Georgia	No law					
Hawaii	No law					
Idaho	1892	2	5000b	5	500b	
Illinois	1907	1-3	4000-10000b	1½-15	500-2000b	Progressive
Indiana	1895	1-2	20000b	2-10	500-2000	Progressive
Iowa	No law					
Kansas	1896			5d	1000	
Kentucky	1909	1-5	5000	3-15	1000	Tax limitation, graded and progressive
Louisiana	1906			5	500b	
Maine	1828e	2	10000	5	0	
Maryland	1893	1-2	500-10000b	4-7	500b	Progressive
Massachusetts	1845			2½	500	
Michigan	1891	1-4	1000-10000	2-8	1000	Graded and Progressive
Minnesota	1893	1	2000b	5	100b	
Mississippi	1875	1-3	3000-10000b	3-15	100-1000b	Progressive
Missouri	No law					
Montana	1895	1	7500	5	0	
	1897			5	500	

	1901	1911	1	10000b	2-6	500-2000b	Progressive
Nebraska.....	1901	1911	1	10000b	2-6	500-2000b	Progressive
Nevada.....	No law	.....	.....	.....	.....	.....	.....
New Hampshire.....	1878	1911	.....	.....	5	0	.....
New Jersey.....	1892	1912	.....	.....	5	500	.....
New Mexico.....	No law	.....	.....	.....	.....	.....	.....
New York.....	1885	1911	1-4	5000	5-8	1000	"Model law"
North Carolina.....	1847	1911	4f	2000	14-15	2000	Progressive
North Dakota.....	.....	1903	.....	.....	2	25000	.....
Ohio.....	1893	1906	.....	.....	5	200	.....
Oklahoma.....	.....	1908	.....	.....	14-15h	100-500b	Progressive
Oregon.....	1903	1909	1g	5000-10000b	2-6	500-2000b	Progressive
Pennsylvania.....	1828	1905	1	5000bi	5	250	Progressive
Porto Rico.....	.....	1901	1-3	200	3-9	200	Progressive
Rhode Island.....	No law	.....	.....	.....	.....	.....	.....
South Carolina.....	No law	.....	.....	.....	.....	.....	.....
South Dakota.....	.....	1905	1	5000j	2-10	100-500b	Progressive
Tennessee.....	1891	1909	1-14	5000	5	250	Progressive
Texas.....	.....	1907	.....	.....	2-12	500-2000	Progressive
Utah.....	1901	1907	5	10000k	5	10000	Tax Limitation
Vermont.....	1896	1908	.....	.....	5	0	.....
Virginia.....	1844	1910	.....	.....	5	0	.....
Washington.....	1901	1907	1	10000k	3-12	0	Progressive
West Virginia.....	1887	1909	1-3	25000	3-15	0	Tax limitation, graded and progressive
Wisconsin.....	1868	1911	1-3	2000-10000b	14-15	100-500	Progressive
Wyoming.....	1903	1909	2	10000	5	500	.....

^a Alabama had an inheritance tax law in 1848. Constitution of 1901 says 2½ per cent. may be imposed, but legislature has never passed statute.

^b This applies to each person.

^c Varying less amount on certain non-resident estates.

^d Aliens 30 per cent. — alien brothers and sisters 10 per cent.

^e Applied to aliens only.

^f Husband or wife exempt from any tax.

^g Supreme Court held statute constitutional, but repudiated the arithmetical progression method of computing the tax, holding but one

^h Increase of rate over the primary rate in any class is provided for.

ⁱ Estates of less than \$10,000 are exempt.

^j To certain lineals an exemption of \$50,000.

^k Exemption to widow \$15,000, and each other lineal \$10,000.

INHERITANCE TAXATION IN THE STATE OF NEW YORK

BY LAWSON PURDY

President of Department of Taxes and Assessments, New York City

New York was not the first state to impose a tax upon inheritances, but it was one of the first, and the tax has been developed more in detail and more effectively than anywhere else in this country. It is natural that it is the case, because the great wealth concentrated in the state of New York made the tax highly productive and the large estates subject to a tax led to litigation over almost every phrase of the statute.

The first law taxing inheritances was enacted in New York in 1885. At first it only affected the transfer of property to collateral relatives and strangers and did not tax the transfer of property of non-residents. Thereafter it was amended from year to year and its scope widened. Decisions of the court of appeals adverse to administrative rulings led to further amendments, designed to increase the revenue, or correct inequalities. In 1910 the tax produced over \$8,000,000.00.

The receipts for the last four years are as follows:

Year ending Sept. 30, 1909.....	\$6,962,000.00
Year ending Sept. 30, 1910.....	8,212,000.00
Year ending Sept. 30, 1911.....	8,152,000.00
For the year ending Sept. 30, 1912, the receipts will be approximately.....	10,000,000.00

Prior to the amendments of 1910, the tax was one per cent. upon property transferred to those in the most favored class and five per cent. to nephews, nieces and strangers. A tax was imposed upon the transfer of all property of non-residents which could be reached by the arbitrary power of the state,

and frequently the same property was subject to a transfer tax at the death of the owner by two or three states.

In 1910 Governor Hughes recommended that the rate of taxation should be increased and the rates graduated in order that the revenue of the state might be increased, and perhaps partially in response to the popular belief that graduated rates of taxation on inheritances were reasonable and proper. In response to this recommendation the legislature passed a bill graduating the rates, but graduating them upon the basis of the entire estate of the decedent, regardless of the number of beneficiaries and the amount received by each. Upon this ground Governor Hughes vetoed the bill and the legislature acting upon his advice enacted another bill which adopted the correct principle of graduating the rates on the basis of the amount of each bequest. The rates enacted however, were generally regarded as excessive, ranging from one to five per cent. on direct bequests and from five to twenty-five per cent. on collateral bequests. Moreover, the objectionable and unfair former feature of the law taxing the transfer of the intangible property of non-residents whenever it could be reached, was retained.

The immediate effect of the double tax feature and excessive rates was said by those in a position to know to have been a withdrawal of large amounts of money from the state, the surrender of safe deposit boxes, and the sale of the stock of New York corporations. It had been customary for large numbers of persons to hold safe deposit boxes in the city of New York, because of their intimate relations with the city from a business point of view, even though they were residents of a foreign state. It was also customary for persons residing in other states and in Europe to deposit with their bankers in the city of New York large sums of money for investment and to leave with their bankers securities purchased for them. Many such accounts were withdrawn and frequently the securities sold. The law operated as a very serious discrimination against corporations organized under the laws of the state of New York, because the stock of such corporations when transferred upon the death of the owner was subjected to taxa-

tion regardless of the owner's residence. The law contained also a very mean and narrow provision. While it exempted bequests to colleges, churches and the like in the state of New York, it taxed such bequests at the collateral rates when made to similar institutions of other states and countries. One gentleman of my acquaintance whose estate is generally reputed to be worth several millions of dollars told me that he intended to leave substantially all his fortune to the college of which he is an alumnus, situated in another state. He said he did not propose that the state of New York should take twenty-five per cent. of what he intended to give his college and much as he would regret the change, he would remove his residence to a state which would permit his college to receive the full amount of his bequest. I urged upon him that his health was good and asked him to wait another year and give us a chance to attempt an amendment of the law. This I am happy to say he did, and now it is unnecessary for him to move. I was informed by an attorney who drew the necessary papers, that a client of his had executed a will leaving \$1,000,000.00 to Yale University. He told his client of the enactment of the amendment of the law which would impose a tax of nearly twenty per cent. on this bequest, and was ordered to change the will immediately, by striking out the bequest to Yale. Another lawyer told me of a client whose family had been citizens of the city of New York for two hundred years, who immediately changed his residence to a New Jersey town which is nearby, altered his will naming New Jersey executors, sold his New York securities, and bought securities of corporations incorporated elsewhere, surrendered his safe deposit box, and hired a box in Newark, with the result that if he should die, the state of New York would not get a cent of his estate, and his citizenship would be lost to the city of his birth.

While prior to the amendment of the rates the state derived a considerable revenue from the tax on the transfer of the stock of New York corporations held by non-residents, chiefly on account of the ignorance of such persons, the increase in the rates was so widely advertised in this country and Europe, that it is likely that had the act remained unamended, the

revenue would actually have been less from this source than when the rates were about one-fifth as high.

There is no scientific or infallible guide to enable us to determine just what rates are reasonable and what are unreasonable, but we may well determine that any rate is inexpedient which is so high as to lead to a decrease in the revenue. Our brief experience with these very high rates seems to show conclusively that they were higher than the traffic would bear. The first conference on state and local taxation held at Columbus in 1907 resolved that succession and inheritance tax laws should be so amended that the same property shall not be taxed by two jurisdictions at the death of the owner. At the next conference in 1908, a committee was appointed to prepare a model inheritance tax law. The committee held meetings the following year and prepared a tentative draft of a bill, reporting progress to the conference in 1909. In 1910 the committee reported the present draft of the model law, based upon the law of New York with changes designed to prevent double taxation, by providing that the transfer of tangible property only, of a non-resident should be taxed and not his intangible property. The proposed law suggested that rates should be graded as to relationship and progressive as to the amount of the bequests based on the value of each bequest, and not on the total value of the estate. The committee recommended that no distinction should be made between institutions entitled to exemption whether located in or out of the state. The report of the committee was unanimously adopted.

The following January a state tax conference of tax officials and others was held in Utica, New York, and that conference adopted a resolution approving the principles advocated by the committee of the National Tax Association, in their report, presenting the model inheritance tax law. Thereafter a bill was prepared amending the New York law to conform to the model law, and was introduced in the legislature of New York state. Of course it met with some opposition, principally on the ground that it favored non-residents and that the state of New York should rather adopt some reciprocal provision such as that of Massachusetts, providing that New

York would not tax the intangible property of the residents of a state which did not tax such property when owned by residents of the state of New York. Such reciprocal provisions are difficult to administer and savor too much of interstate war. It was too much like a promise not to steal if your neighbors would not steal. It was argued that the state of New York is strong enough and fair enough to set an example to the other states of the union, confident that the example would ultimately be followed. The bill was finally passed by the legislature and signed by the governor. So far it seems to have met all expectations, although it is still too early to determine with accuracy the amount of revenue which it will normally produce. The rates of taxation range from one to four per cent. for direct bequests and from five to eight per cent. on collateral bequests. The eight per cent. rate is imposed only on amounts in excess of \$1,000,000.00. The exemptions to educational, religious institutions and the like, are for the benefit of all such institutions wherever located, and no intangible property of a non-resident decedent is subject to taxation.

The tax commissioner of Massachusetts immediately recommended that the inheritance tax law of Massachusetts should be so amended that only the real estate of non-resident decedents should be subject to taxation. The Massachusetts legislature followed this recommendation by the enactment of chapter 678 of the laws of 1912. In this act, the New York tax rates are substantially adopted. Thus Massachusetts slightly increased the rates, while at the same time abolishing double taxation. In his admirable argument, Tax Commissioner Trefry of Massachusetts states:

“Investors all over the country are carefully seeking for securities which are subject to no legacy tax in a state other than that of the domicile of the owner. If Massachusetts shall cease to tax non-resident estates on account of their shares in Massachusetts corporations, these shares will become much more attractive for foreign investors. The effect upon the financing of our industries will be favorable. Foreign capital will be more easily induced to come to Massachusetts. It is in my judgment a mistaken policy for Massachusetts to tax a New York estate because its owner helped finance a manufactory in

this state and thus became the possessor of shares in a Massachusetts corporation. This is not an invitation for foreign capital to come to us. It is quite the contrary.

"We now tax a non-resident estate with reference to any savings or other bank accounts in this commonwealth, on account of any bonds of whatever nature which at the time of death of the owner are physically present in this commonwealth, and on account of any debt due him from a Massachusetts resident. It may be that such non-resident has never lived in Massachusetts; that he puts his money and securities in the safe-keeping of our banks for his convenience only; that his loans to Massachusetts residents are good business for him. And yet we now tax the estate of such person because he has had confidence in our institutions and our citizens. It is to be observed that in this we are taxing a person (or his estate) who bears no allegiance to Massachusetts; who has no duties or obligations towards this commonwealth,—a person over whom in his lifetime the laws of Massachusetts have no authority, and for the devolution of whose personal property our laws do not prescribe. The reason why we tax such an estate is because we can,—because courts have said that theoretically such property of such an estate is within our taxing jurisdiction. It is a rule in which might makes right, irrespective of fair dealing. So long as Massachusetts and other states tax legacies and successions in this manner we must expect confusion and complaint against our tax laws. In my judgment confiscation rather than taxation fitly describes this practice.

"It is well known that the banks and trust companies of Rhode Island which has no inheritance tax law are now the depositories of large amounts of money of non-residents. If we shall cease taxing the estates of non-resident decedents with reference to their personal property our financial institutions will receive large amounts of deposits from foreigners. Such money in the hands of our banks and trust companies becomes a part of the working capital of our industries. To secure its use is wise action, and in my judgment ought not to be delayed.

"A tax law ought not to be made or unmade solely for the purpose of benefiting any class of institutions. Consideration for the interests of the whole state should govern our tax enactments. My recommendation is made in the belief that the interests of the whole commonwealth, and reasonable treatment of citizens of other states, both demand the change."

In spite of the satisfaction we in New York must feel with the success so far achieved, and the fact that Massachusetts has

followed the same fair, wise course, we must not blind our eyes to the fact that many are easily influenced by the alluring demand to tax non-residents who have no votes. To some the dollars before their eyes are so large, they cannot see the thousands and millions of dollars they may drive away by the capture of a few dollars they may seize. The appeal to fairness and to the proper consideration for the comity which should obtain between states, falls upon deaf ears. It is vital to the interest of the state of New York that other states besides Massachusetts should follow our example, so that we may hold unspoiled the good law we now possess. It is strange but sadly true that those who profit most by wise legislation and suffer most from unfair legislation can seldom be induced to take the proper interest in the work of education, which must precede good laws and which must be continued to preserve them.

TAXATION OF STOCKS AND SECURITIES UNDER THE INHERITANCE TAX LAW

BY JOHN HARRINGTON

Inheritance Tax Investigator of the Wisconsin Tax
Commission

One of the principles generally agreed to by students of taxation is that double taxation should be avoided. The inheritance tax laws of the different states as now administered involve a certain amount of double taxation. A man may die a resident of one state, owning stocks and securities deposited in the vaults of a trust company in another state, and representing tangible property located in still a third state. In such a case it is possible for the estate to be required to pay inheritance taxes in each of the three states. The injustice of this condition of our laws will be generally agreed to. There will be little disagreement, at least in theory, that in such a case the property passing by will or intestate law should be taxed only once. The more difficult question is as to which jurisdiction should have and exercise the taxing power and receive the fund to which the estate is subjected. It is this question which I wish to examine briefly.

While the courts have agreed with substantial unanimity that the inheritance tax is a tax upon the transfer and not upon the property, yet it is true that the tax is measured by the value of the property, and is usually charged as a lien upon the property, and is a burden which the property must finally bear. And taxation being for the maintenance of government, and a chief purpose of government being the protection of property, and the administration and enforcement of the laws of property, it would seem to follow that any tax, whether levied upon the property itself, or upon the act of transfer, or upon the succession to the property, or any interest therein, should be levied, collected, and for the use of, the jurisdiction in which the tangible property is located.

It was a fiction of the law, and still is, for a good many purposes, that personal property is located at the residence of the owner. But in *Blackstone v. Miller*, 188 U. S. 189, Justice Holmes says, "When logic and the policy of a state conflict with a fiction due to historical tradition, the fiction must give way."

Graves v. Shaw, 173 Mass. 205.

Neilson v. Russell, 76 N. J. L. 27.

Dixon v. Russell, 78 N. J. L. 296.

In re Douglas Co., 84 Neb. 506.

A man may reside in Chicago, owning a large lumbering business in northern Wisconsin or Michigan. The property of the business consists largely of logs, lumber and timber in various stages of manufacture, together with machinery and other equipment for carrying on the business. This property is all or nearly all in the form of personal property. It is the sheerest fiction to consider Chicago to be the situs of such property, and it ought to be considered a clear case of legal injustice to tax the transfer of such property in Illinois because the owner dies a resident of that state. The care and protection of such property, so far as the public is concerned, devolves upon the state where it is located. The new owners who have succeeded to the property must come into the state of its situs to assert and enforce their rights to the property. They must call upon the local courts and officers for such legal assistance as they may require. The raw materials are drawn from the locality. The money to pay the tax is drawn from the business. If it is a local business its prosperity depends upon the residents of the neighborhood. No one now thinks of collecting general property taxes upon the business except at the situs, and the tendency is to exempt personal property from general taxation. For these reasons the transfer tax, it would seem, should be collected at the situs of the property for the benefit of the jurisdiction having the actual governmental burden of the property.

But the chief form of so-called property in relation to which this question arises is corporate stock, and especially railroad

stock. More and more the business of the country is being carried on by corporations, and now nearly all the larger businesses are so transacted. The stock of these corporations is often widely distributed. Such stock is classified as personal property, even though the corporation itself be nothing but a land company dealing in wild lands and having no other form of property. While the several states are substantially in harmony that land of a non-resident decedent is taxable under the inheritance tax law only in the state where the land is located, yet a very material and growing portion of such land must be withdrawn from such taxation as the holdings of railroads, mining, quarry, wharfage, waterpower, street railway gas and other such companies increase as they are now constantly and rapidly increasing. In the cities hotels, theaters, office and mercantile blocks and many other forms of real estate are falling into corporate ownership.

For the purpose of purchase and sale and for other reasons in the law it has been and still is a convenience to classify this stock as personal property, although such classification involves a legal fiction; but for the purpose of the inheritance tax we find the fiction inconvenient, and frequently working injustice; and hence it should be the aim of those having to do with legislation and their advisers, especially tax commissions, to secure such changes in the law as will do away with double and multiple taxation, and will secure the taxation of such property in the jurisdiction where the property represented by the stock is located.

Under this rule stocks of all corporations, when so transferred, will be assessed for inheritance taxation where the actual property of the corporation is located, where the business of the corporation is chiefly transacted, where the expense of police and fire protection must be met.

Railroad stocks are now, and will continue to be very largely owned in the great commercial centers, and in the favored residence locations, while the roads extend east and west, north and south, throughout the various states of the union. The railroad property is protected by the laws of the several states, and its earnings are derived from the populations and busi-

ness of these states. The same is true of the stocks of local public service corporations. To say that a street railway in Des Moines is New York property because the owner of the stock lives in New York is as clear a legal fiction as can be stated.

In the case of real estate the principles I have outlined above are generally recognized. A resident of Wisconsin may die owning land or an interest in land in Iowa which is represented by a warranty deed in his possession at the time of his death. We recognize that the deed is not the property, but that the land is the thing that has passed to his heirs or devisees; and being property located in another state, it is not subject to the inheritance tax laws of the state of Wisconsin. Why, then, is not stock in the Des Moines street railway as clearly Iowa property? Why not equally the stock representing a Michigan copper mine? The stock certificates are merely the paper evidences of title to tangible property, and the rule of taxation should be precisely the same as in the case of real estate.

It is now quite definitely settled in the law that although shares of stock of a domestic corporation are owned by a non-resident, they represent an interest in property within the jurisdiction of the state for the purpose of taxation upon their transfer.

People v. Griffith, 145 Ill. 532.

Estate of Palmer, 183 N. Y. 238.

Estate of Leavitt, 4 N. Y. Supp. 395.

Estate of Alexander, 3 Clark (Pa.) 87.

Many of our large department stores are owned by corporations. The owners of the stock often live in the large commercial centers, and outside of the state where the store is located. The store and its stock of goods receive fire and police protection from the city of its location; its business is transacted with the people of that city; its prosperity is derived from those in its immediate vicinity. There is no reason why a tax should be paid at a distant city for the benefit of another state, upon the transfer of the mere evidence of ownership. For it must be remembered that this tax is a burden upon the property, reducing its market value by so much.

While it is not necessary for the present purposes of this discussion to consider the case of mortgages, yet much of what has been said of stocks will have a like application to such securities. In essence a mortgage is an equity in the property mortgaged. Under our systems of general taxation more and more it is coming to be recognized as economically sound and equitable to tax the corpus in full, and exempt the mortgage. If the same rule should apply to the transfer tax upon mortgaged property passing at death, the discussion might end here. But the laws now provide, and are likely to continue to provide, for deduction of secured debts from the gross property. While such deductions are allowed, the transfer of the mortgage is a transfer of a portion of the actual property, and should be subject to the inheritance tax law of the state where the land is located, and only to that transfer tax. Additional grounds for this position are found when we remember that the enforcement of the mortgage obligation must be sought in the state where the land is located, at the expense of the property and people who support the courts and officers of that state. To say that the value of the mortgage should be deducted from the real estate value of that state, and taxed as property of the distant state where the owner may reside, does not accord with sound economic reasoning.

The law now recognizes the right to tax the transfer where the land is located.

Kinney v. Stevens, 207 Mass. 368.

Estate of Rogers, 149 Mich. 305.

I am suggesting as the underlying principle for the solution of the problem before us, that such intangibles as represent tangible property should be taxed upon their transfer at the situs of the tangible property, and for the benefit of that jurisdiction only. I am of the opinion that any present difficulties of administration may be readily adjusted and overcome; that a broad and generous comity among the several states must be founded upon sound economic principles; and that a single tax only, at the jurisdiction of the tangible property, and for

its benefit, will respond to all the calls of comity, equity and economics.

Where the property of large corporations is located in different states the tax should be apportioned among the several states in proportion to value. This will have especial application to railroad stocks, which are more largely involved in the question under discussion than any other stocks. Theoretically, a careful and scientific ad valorem valuation of all railroad property should be made including franchise value. Until that is done, the best estimate of value is one based upon entire track mileage, as distinguished from main line mileage. Where switches, turn-outs, and sidings include much trackage it indicates approximately large business, and therefore relatively large value, as compared with a meager amount of such trackage. State tax commissions with their engineering and statistical departments can solve these problems with sufficient accuracy for practical purposes. Such commissions, with large administrative powers, now exist in many states, and are being created from year to year in other states; and it is perhaps a safe prediction to say that in a few years there will be an effective tax commission with general supervisory and administrative powers in every state.

DISCUSSION OF INHERITANCE TAXATION

MR. ROLLIN E. GISH (Oklahoma): I wish to agree entirely with the report of the gentlemen from Connecticut and New York, and to state my reasons for disagreeing absolutely, as a proposition of law and as a matter of business, from the conclusions reached in this report from Wisconsin. I think that the gentleman from Wisconsin has made a legal mistake in the first place as to the nature of a share of stock, and has confused it with a deed representing a tenancy in common. A share of stock is entirely different from the interest which a tenant in common has. A share of stock does not confer the ownership of an integral part of the property at all. There cannot be any partition based upon a share of stock. Ultimately it is a right to receive dividends, and a right, after all creditors and bond holders have been satisfied, to receive what is left on dissolution. But it in no sense represents a share of the property itself.

The courts have held that an inheritance tax is not a property tax at all. If there is any one thing that is absolutely settled in the law it is that inheritance taxes are imposed upon the privilege of succession, and not upon the property. Now then, the only jurisdiction with power to impose a tax upon the privilege of succession should be the one which confers that privilege. The great weight of authority in the United States supports the conclusion that, if the law of the owner's domicile says that a certain heir shall receive personal property, the law of the place where that personal property happens to be recognizes the transfer, on principles of comity. Therefore it is the law of the state of domicile which confers the privilege of succession; and consequently, under the authorities, if the inheritance tax is a privilege tax, it is theoretically proper that the law which confers the privilege should impose the tax. It is no doubt true that the New York courts have held, in the matter of *Bronson* and several other cases, that the state where the corporation property exists has power,

by reason of the presence of the corporation in the state, to levy this tax. I think there is a little uncertainty in that opinion as to the character of a share of stock, but possibly on the rule of *stare decisis* we have to accept it as the law. But I want to call attention to the fact that Professor Beale of Harvard Law School, in writing on foreign taxation, comments upon the peculiarity of this decision; and I think his questioning of it is entirely well founded, for the reason that a share of stock is not the property of the corporation at all. The corporation's property, that is the physical property, is taxed. Its tangible property is taxed where located. But the share of stock is not the corporation's property; and the share of stock is really situated, under the general rule of law, at the domicile. It has its *situs* at the domicile of the owner. The domicile of the owner gives it the power to go to the legatee which the testator designates; and the fact that the testator's domicile gives this power is, I think, the reason why the conclusion reached by the New York and Connecticut legislatures is correct in theory, and why the conclusion reached by the Wisconsin commissioners is incorrect.

MR. J. S. MATTHEW (New Hampshire): The last speaker has said a number of things which I would have said if I had got the floor before he did, but I would like to add one further idea. Since the foundation of the republic there has been a customary agreement among the states with reference to the settlement of estates, and the state of domicile has always been allowed control of the devolution of personal property. Other states have hesitated to interfere with this and it never has been encroached upon until the coming of the inheritance tax, when states other than those of the domicile undertook to tax personal property found within its borders, perhaps without realizing what the effect upon the settlement of the estate might be. Taxing the estates of non-residents as to personal property is an encroachment upon the time-honored privilege which has heretofore been granted to the state absolutely to control without let or hindrance the devolution of the personal property of its residents. This tax is a limitation upon that right. It is an attempt by the state where the property happens to be located to tax a privilege which hereto-

fore by common consent has belonged to another state. The effect is to make burdensome the settlement of estates. A decedent dies in one state owning shares of stock in a railroad which runs through a half a dozen states. If it is a large estate he may own shares of stock in numerous corporations located in many states. The executor of his estate is burdened with the task of adjusting taxes with all of the different states in which that property happens to be located. From my point of view, it seems to me that the burden has reached a point where it is unreasonable, and that relief from the delay and the expense incident to the adjustment of taxes in many states is one of the most important reasons why legislation along the Massachusetts line should be adopted.

THE CHAIRMAN: Gentlemen, I wish you would bear with me for a very few words. I had some part in the preparation of the model inheritance tax law as a member of the committee. The committee discussed seriously and carefully the theory advanced by the gentleman from Wisconsin. Personally I agree entirely with the position that Mr. Matthews has set forth, and that was set forth by the gentleman from Oklahoma. But there was a further consideration, which seems to me sufficient in itself to determine the question as it was determined in the model law and in the law of New York and Massachusetts. That is, that to administer a transfer tax law drafted thoroughly in accordance with the theory laid down by the gentleman from Wisconsin would be a task of frightful intricacy. I doubt if any officer charged with the collection of an inheritance tax in a state where the law produces a good many millions of dollars would wish to undertake such a task. As the gentleman from Wisconsin suggested, it goes much further than in connection with the transfer of shares of stock, and in the case of the transfer of shares of stock it is a very serious matter for any state to undertake to collect taxes upon the property represented by the stock owned by every person who dies throughout the world. I shrink from considering what would happen to such an official.

PROF. THOS. S. ADAMS (Wisconsin): Mr. Chairman, I do not like to let the subject rest there. First of all Wisconsin agrees with the proposition that there should be a single rule

in this connection. There have been very grievous sins committed. Wisconsin, along with New York and Massachusetts, has in the past committed her share of the sins, and we do not attempt to explain or extenuate. We are going to try to deal more justly in the future. The problem here arises from the fact that there have come to be, throughout this country, distinctively residential communities. In Wisconsin the people who own our mines do not live alongside of their mines. They live in the larger cities. The people who own the stocks and virtually own the various textile mills in the state of Massachusetts do not live in the sooty, smoky manufacturing towns. They live outside. The same problem exists everywhere—the question of competition between the jurisdiction of residence and the jurisdiction in which the property is located. As time passes corporate ownership becomes more prevalent and the separation of residence from property becomes more common. You are all familiar with that time-honored custom of having the personal property follow the domicile of the owner. It probably arose when there were not a hundred corporations in the United States. But our problem is not controlled by what the law has been. The question is how we shall change the law to meet present conditions. It is incumbent upon us to find not what has been time-honored, but what is right.

The only real objection to the plan proposed by Wisconsin is its difficulty. I believe the difficulty is inconsiderable. Every corporation that has property in the state of Wisconsin could be made to take out a license in the state of Wisconsin, and could thereafter be prevented from transferring its stock except after ascertaining that the inheritance tax had been paid. With such safeguards the Wisconsin proposal seems to me not only juster than the rule adopted by the state of New York, but entirely practicable. I am speaking of stock and not of bonds.

Finally, I will venture to predict that there can in the nature of things be no extensive copying of the New York rule in the west. The people who own the properties of the west do not live in the west. We are not going to follow the New York rule unless we are convinced that it is juster than the argument up to the present time has served to convince us.

We believe here that the trend is towards taxation *in rem*, with some exceptions, such as the income tax.

THE CHAIRMAN: You have your *rem* taxes every year.

PROFESSOR ADAMS: Yes, but we can not permit all the property in the state, the mines and the railroads, to be turned into corporate form, the owners to move outside, and the inheritance taxes go to that outside jurisdiction. If I thought our proposal was wrong nobody would protest against it more vigorously than I, but at the present time my conscience is not converted.

MR. JOHN HARRINGTON (Wisconsin): I have been administering the inheritance tax law in the state of Wisconsin for some time past, and the procedure is the simplest imaginable thing. We require, in our state, a brief petition on one sheet of paper, signed by the executor or the executrix, or attorney for the estate or any responsible person setting out the fact of death and the date of death, the description of the stock, and the beneficiaries taking under the will or under the law. The blank is sent to the parties; it is returned to us; and the same day the tax is computed. A blanket statement of the computation is returned with an invitation to remit. On receipt of the money an order of court is made and sent to the parties authorizing the transfer of the stock. The whole thing is transacted in from one week to two weeks. Our procedure is not complex, and in anywhere from one week to two weeks the whole matter is settled, without one dollar of expense to the foreign estate except what the attorney may charge for seeing that the blank is filled out properly.

THE CHAIRMAN: You are speaking only of the transfer of the stock of the domestic corporation?

MR. HARRINGTON: Of the Wisconsin corporation.

THE CHAIRMAN: How about the transfer of bonds representing the property in Wisconsin?

MR. HARRINGTON: We do not tax bonds so far.

THE CHAIRMAN: I know, but that is in accordance with your theory, if you are not going after the *rem* but the shadow of the *rem*.

MR. HARRINGTON: We reserve the right to change our minds about bonds.

THE CHAIRMAN: How will you find out when the owner dies?

MR. HARRINGTON: The owner will let us know when he wants that stock transferred.

THE CHAIRMAN: I am speaking of bonds.

MR. HARRINGTON: I say we are not insisting on bonds at the present time.

MR. RYAN: I would like to ask you this question. Suppose you have an Arizona corporation and the testator dies a resident of Massachusetts. How are you going to get the report?

MR. HARRINGTON: I don't see that we have anything to do with that.

MR. RYAN: How are you going to tax it?

MR. HARRINGTON: I don't see that we have anything to do with a case of that kind.

MR. RYAN: The property in Wisconsin, I mean.

MR. HARRINGTON: An Arizona corporation with property in Wisconsin?

MR. RYAN: Yes.

MR. HARRINGTON: Why, we will compel that corporation to file a certificate in Wisconsin that it is doing business in Wisconsin.

THE CHAIRMAN: And tell you when any stockholder dies?

MR. HARRINGTON: Yes.

MR. WILLIAM H. CORBIN (Connecticut): Mr. Harrington, do you tax shares of stock of a Massachusetts corporation held by a Wisconsin decedent?

MR. HARRINGTON: We do now. We are not arguing for that.

MR. CORBIN: You do not let Massachusetts tax them?

MR. HARRINGTON: We will agree with you in that respect.

MR. CORBIN: That is, you argue that Massachusetts should tax the shares of stock to the Massachusetts corporation?

MR. HARRINGTON: Yes, sir, and Wisconsin should not.

MR. CORBIN: But still you tax the shares of stock of the Massachusetts corporation?

MR. HARRINGTON: That is our present law. I am not saying the Wisconsin law is the only way.

PROFESSOR ADAMS: We confess our sins.

MR. CORBIN: I think you have been caught with the goods on, arguing for a theory and then doing the other thing.

MR. HARRINGTON: I am not arguing that our law is correct. We admit it is not. We present a case of what the law ought to be. Now just as soon as you are willing to stop taxing the stocks of the Wisconsin corporations we are willing to stop taxing the stocks of the Massachusetts corporation, and we may do it a long time before you do.

MR. CORBIN: It seems to be right up to this point in connection with the inheritance tax, "We want the money." By keeping control of the corporations and making them hold up the transfer of the stock certificates until the tax is paid, we can get the money out of them. But when it is a case of bonds transferable from person to person we cannot do that so easily as we can on the stock. It is not a case of what the Golden Rule is, exactly. It is a case of wanting that money and being able to get it through that method. Wisconsin must have very valuable natural resources or New York and Boston people would not be investing in them. Tax your resources and thus take it out of the dividends paid to these New York and Boston men, and supplement your income from your realm, and let up on your inheritance tax. And then bear in mind another thing, that this is a big country, as we all know, made up of republicans, democrats and progressives and we all have our own views about taxation. Some states in the east do not even tax shares of stock of domestic corporations. We say they are simply an evidence of ownership. But we tax the corporation property itself, and hold that the stock certificate is simply a piece of paper representing a certain interest in this physical property. We, in Connecticut, and in New York, can't turn ourselves inside out and tax shares of stock of all these corporations just to meet you half way on your theory of getting some money out of some people who are not living in your state because you don't tax the real property itself enough and want to get these outsiders to contribute in another way.

PROFESSOR T. S. ADAMS (Wisconsin): A logical compromise is to give bonds to the state of domicile and take stock where the property is situated. That would be a fair division.

It is not a fair division, as we see it, to allow both to go to the state of residence. It is no use for the eastern communities to come with the New York proposition to the western communities until we can see its equity more clearly. We believe the present Wisconsin law is wrong, I believe it is wrong, Mr. Harrington believes it is wrong. We want to mend it, but we want to go to the legislature with a clear conscience and tell them what we think is right. We do not think it is right to have the entire tax follow the state of residence. We cannot, with clear conscience, recommend that. We believe that the compromise suggested, bonds following the domicile and stocks following the location of the property, is as good as, under the circumstances, can be got.

MR. A. S. DUDLEY (Wisconsin): I don't quite see how the place of residence gets the whole thing. The owner of the property is the corporation. The corporation is a resident of the state of Wisconsin, where the property is located. That property is annually taxed by the state of Wisconsin, and that taxation can never be taken from the state of Wisconsin. Now there are certain slips of paper held throughout the country that indicate a certain interest in the property, and the transfer of that paper from one man to another on the death of one is a privilege accorded at the domicile of the decedent. It seems to me that any tax imposed upon that privilege should be imposed by the municipality or community which grants the privilege. Is it not a fact that we owe something to the sovereignty under which we live as well as the sovereignty where our property is located? If we are paying taxes on our property in Wisconsin—that is, if the property, the actual thing, is taxed there annually—isn't it also true that a resident of Massachusetts who has an interest in that property owes something to the government of Massachusetts under which he lives? And if the government of Massachusetts provides for the transfer, and this is a tax on transfer, why should not the tax be taken in Massachusetts, that accords the privilege and furnishes the good government?

MR. WILLIAM H. CORBIN (Connecticut): Just one moment to answer Professor Adams when he says you can't get these western states to do anything different. The record shows

that Wisconsin has not made it unanimous yet. The following states in the middle west and extreme west do not impose double taxation, as I understand it: Montana, Nebraska, North Dakota, Ohio, Oregon, South Dakota and Wyoming. Indiana and Nevada have no inheritance tax at all. So it is pretty nearly an even break now in the middle and extreme west.

MR. W. F. BAXTER (Nebraska): That is simply because they are asleep. I have been impressed by one thing during this discussion, and that was the suggestion of Mr. Corbin, applicable to Wisconsin and every other state, that they tax their natural resources, reach everybody and stop quibbling about the equity involved.

MR. ARTHUR C. PLEYDELL (New Jersey): I agree with the point Mr. Dudley brought out. The vital thing at issue is, what kind of a tax is an inheritance tax. It seems to me there is no justification for an inheritance tax as a property tax. Property is taxed in the hands of the man who owns it. Now the moment that that man dies and it passes to some one else, the property is still subject to the property tax. The state does not give any additional protection or benefit to the property as property, merely because the owner of it dies. The only economic or moral justification that can be alleged for an inheritance tax is that it is a tax upon a privilege given to a person of taking property; and that has nothing to do with the situs of the property or of the slips of paper representing property. As Mr. Dudley has pointed out, it is a tax imposed by a sovereign state upon a person and not upon his property.

MR. JOHN HARRINGTON (Wisconsin): How would you apply that to real estate located in Wisconsin, the owner living in Chicago and dying there?

MR. PLEYDELL: There is a difference between real estate and personal property. There is justification for the state charging a fee for permitting the transfer of real estate because, under Anglo-Saxon law, the state is the ultimate owner of real estate and more especially land and is entitled to the absolute reversion of real estate at death.

PROF. THOS. S. ADAMS (Wisconsin): Mr. Pleydell's argu-

ment leads directly and inevitably to a conclusion which no one would acknowledge, namely, that the jurisdiction in which the beneficiary resides should get the tax. He said that the inheritance tax is a tax upon a privilege given to a person of taking property. I simply point out that fact. It is of no importance for the reason that no state will attempt successfully to collect an inheritance tax that does not put it on the privilege of transfer not on the privilege of taking. The Wisconsin plan puts the tax on the transfer. Whenever the property is in Wisconsin, Wisconsin can control and tax its transfer by reason of death. In the case of a Wisconsin corporation we tax the privilege of transferring the stock which represents part ownership of its property and business.

MR. DUDLEY: Do you when the transfer is passed elsewhere?

PROFESSOR ADAMS: I think so. Suppose all the owners of corporate stocks in this country went to reside in England. Would the United States for five minutes consent to the theory which is here being exploited? Or suppose in any given state that the owners of all corporate stocks went to reside in one county, would any state consent to give that county the entire proceeds of the inheritance tax? Now the same principle is at work between states.

MR. PLEYDELL: I deny that by any logical deduction the tax should go to the state where the beneficiary resides. That state has no power to compel transfer to him of property left by a decedent of another jurisdiction. For example, a beneficiary resides in England. What power has the government of England over the government of the United States or the government of the state of New York, when a man in New York dies, to compel the transfer of that property to the man in England? The state of New York permits the transfer of that property to the man in England.

PROFESSOR ADAMS: The state where the property represented by the stock is situated can also hold the property. We are doing it with railroads passing through Wisconsin. It is a question who shall give this privilege of transfer. We propose to give it in the case of a corporation passing property situated within the state of Wisconsin. We can give and

charge for it just as well as the jurisdiction in which the decedent resided.

MR. B. F. MILTON (Kansas): I want to make this suggestion. You are speaking about the right of descent, or the taking of property by descent under a will. You cannot take those shares of stock as a descendant of the deceased owner. You take the right to them under the law of your state, but the state which has control of the matter of the transfer of those shares of stock is necessarily the state of the domicile of the corporation. That distinction must be made between the two propositions. You may grasp the shares of stock that fall from the dead man's hands into your hands, but you will have no effectual transfer of the rights that go with that stock until you invoke the law and power of the state where the corporation is domiciled. And on behalf of that class of states I agree heartily with Professor Adams in saying that the right to the tax upon the transfer of the shares of stock under these conditions is in the state of the domicile of the corporation, and I am corroborated in my position by the decisions of the courts of New York and Massachusetts.

MR. PLEYDELL: I do not deny the legal power of a state to govern the transfer of stock in its corporations, but I deny the moral or economic justification for the exercise of that power, for a very simple reason. Take a case of a copper mine in Arizona, the owner being a company incorporated under the laws of New Jersey, the shares of stock belonging to a resident of Wisconsin, for example. What economic justification is there for the state of New Jersey levying a tax upon the transfer of the stock? The mines are in Arizona. The man is in Wisconsin. The state of New Jersey in return for the payment to it of the annual fee which it demands grants corporate privileges. Its power over the corporation should not justly be extended to enable the state to act the part of a highway robber, and merely because it has control over the transfer of shares of stock, and in most cases through the ignorance of the holder of the shares, to levy an additional tax upon the property represented by the shares. If that is carried to its ultimate conclusion it is going to drive corporations with industries and investments of that character into federal in-

corporation. That is inevitable if the states persist in assuming this local jurisdiction in defiance of the moral and economic principles involved in a just inheritance tax. If a corporation was incorporated under federal laws those particular questions would not arise. Then the tax would be at the domicile of the owner of the shares, and justly so.

MR. MILTON: You could not expect that any of us who came here with a different view could be persuaded to change in a few minutes, no matter how well and how eloquently the other side might be presented. Yet if it took New York and New Jersey some twenty years to get right, and Massachusetts some years, you could not expect Wisconsin to get there in a hurry.

THE WISCONSIN INCOME TAX

BY NILS P. HAUGEN

Chairman Wisconsin Tax Commission

Mr. Chairman and Gentlemen of the Convention.—The order of proceedings here states that I am to discuss the operations of the income tax during the first year of its existence in Wisconsin. It is difficult to do that for the reason that the income tax in Wisconsin is in the first stages of its administration, and we are unable at this time to give you any definite results from that law. We are just in the midst of the first assessment of incomes. The assessment of individual incomes has been completed, and all the boards of review in the state have adjourned. The corporation incomes are assessed directly by the tax commission, and we have been unable thus far to complete our part of the work. So that I cannot give you the results which we hope to be able to give later. But I am going to ask the privilege of doing what is done so frequently in Washington—I am going to amend my remarks when we have more definite information, and shall probably be able to present for the record some information which I am unable to give you today. With that understanding, I am here without any prepared paper. I shall ask leave to print and extend my remarks in the journal.

The income tax law in Wisconsin was the result of an agitation that began nine years ago last winter. There was before the legislature at that time a question as to whether intangible property, moneys and credits, should be exempted from taxation without any substitute. We had not at that time the experience which Minnesota and Iowa can afford us now, and I am not sure that we were familiar with the valuable experience of Connecticut which has just been placed before this convention today. But there was consid-

erable opposition to the exemption of all credits and moneys from taxation, and the question was raised in the committee as to whether an income tax might not be a good substitute for the taxation of intangibles. At that time there was no provision in the constitution of the state under which we felt that an income tax law would be sustained by the courts. We had in Wisconsin, and have had ever since the organization of the state, the general property tax, so-called; and we have had the same experience with that tax that every other state has had—it has broken down and been an absolute failure. That is true not only as to moneys and credits, but it is true as to a large part of the tangible property of the state. It is especially true as to the larger mercantile and manufacturing establishments. It is exceedingly difficult, no matter how honest or how industrious the assessor may be, to assess a large manufacturing establishment. The manager of a large manufacturing establishment said to a member of our commission recently, that it would be impossible for him to state what the value of the personal property in his establishment was on the first day of May. We elect the assessor locally in Wisconsin and require him to go into these different plants and tell what the value of the personal property and of the real estate is on the first day of May. It is a system that must necessarily break down.

As a result of the discussion lasting through several years, both before the public and in the legislature, the legislature of 1911 passed an income tax law. A constitutional amendment had been adopted before that. The law took effect on the first day of January last, and the first tax will be collected next December and January, when other taxes are collected. We are now in the process of administering that law.

It is somewhat of a new venture. It differs from any other income tax law that has been tried in this country. It is more in the line with the income tax law of Prussia, perhaps than of any American state. We believe that in principle the law is correct. We are not here to defend it in all its particulars. The fact is that in some of its provisions the law is not such as the tax commission recom-

mended. The legislature took the bit in its mouth to some extent and ran away with the law. We have it upon our statute books and we are trying to give it a good thorough administration, and we think we are meeting with fairly good success.

When the law took effect on the first day of January, it was necessary for the tax commission to organize the state for purposes of administration. The administration of the law is left entirely to the tax commission. All the corporations report directly to the commission, and there are some ten thousand of them in the state. Individuals report to the local assessor of incomes, and that official is appointed by the tax commission. The tax commission divided the state into thirty-nine districts and appointed an assessor of incomes for each district. A board of review in each county also appointed by the tax commission, has sat in review of that assessment, and has in all the counties but Milwaukee, completed its labors. Milwaukee, of course, is a very important district in this income tax assessment, as it is in reference to taxation generally. Under the general property tax, Milwaukee has about nineteen and one-half per cent. of the valuation of the entire state, and it is to be expected that in the matter of incomes it will contribute more than one-third of all the income tax in the state. [The final figures show this proportion to be forty-two per cent.]

The first thing that we had to try out under the income tax law was the question of the constitutionality of the law itself. An action was brought restraining the tax commission from putting the law into effect, but our supreme court upheld its constitutionality. The court did not have very much difficulty in surmounting the objections that were raised to it, and sustaining it as constitutional.

The income tax law in Wisconsin meets the objections to the flat rate that have been spoken of here today in the taxation of credits, for the flat rate levies the same tax upon a four per cent. security as it does upon a seven per cent. security. The income tax law of Wisconsin levies a tax upon the net incomes of individuals and corporations. It undertakes to measure the ability of the individual to pay. It

undertakes to reach the equality of sacrifice which is recommended by economists of today. So I believe that economically it is a sounder law in principle than any of these half-way methods that have been enacted in the various states, more for the purpose, perhaps, of raising revenue than to find an economically sound basis for taxation. Our income tax is based upon the net income, not upon the gross income. It takes cognizance of the individual's ability to pay in that the income tax with us is progressive, and we have liberal exemptions. I would say that if there is any fault to be found with the exemptions of the income tax law in Wisconsin it would probably be that they are too liberal.

The man who depends on his manual labor for a living will pay no income tax whatever, for the wages of a laborer in Wisconsin, according to the report of our labor bureau, is something less than \$600 a year. An unmarried individual gets an exemption under the income tax law of \$800 a year, a husband and wife \$1,200 a year, and \$200 additional for each child under the age of eighteen years, or any other individual for whose support the taxpayer is legally liable. In that respect we have treated fairly those members of society who should be considered first from an economic standpoint. The law has the humanities in view rather than the mere raising of revenue and it does not assess anybody unless he has some net revenue above the mere needs of existence—"the minimum of subsistence," as it is called. Prussia's law grants an exemption of 900 marks (\$214), and our law is more liberal, taking all things into consideration. I think generally, in Europe today, there is a tendency towards recognizing membership of the family, and that is what we have done.

When it comes to the matter of administering the law, the law itself requires all corporations in the first place, and all individuals with an income of \$700 or more to make a sworn report,—corporations to the tax commission and individuals to the assessor of incomes. In this first year of the administration of the law, it took a long time to find out just who might be liable to a tax, and it is undoubtedly true that many people were required to make returns who ought

not to have been asked to make them, and the law in that respect has proved somewhat annoying to many people, and has created some opposition on that account. But that is a matter which will undoubtedly be remedied to a large extent in future years. Corporations have no exemptions. They pay upon their net income, and pay a rate that is somewhat different from that which applies to individuals. Perhaps I should say before I go into the question of the rate that under the income tax law, we believe that both the corporations and the individuals have made very good returns of their gross incomes and there is very little fault to be found with the way gross incomes are reported. If I were to criticize the reports made to us, it would be in reference to the deductions that are claimed. For instance, the law provides that reasonable depreciation of property shall be allowed as a deduction; also losses not compensated by insurance. And when we come to these two elements in the income tax law, which must always be to some extent a matter of judgment, we find that one individual or one corporation will claim a depreciation upon physical property of one per cent. or two per cent., while another individual or corporation similarly situated will claim ten or even fifteen per cent. In auditing the returns we have to take that into consideration and necessarily make changes. That is a difficulty which would naturally be encountered, and it is perhaps true, too, that our rulings in that respect have not been as definite as they ought to have been in advance, but we have to learn of the difficulties somewhat through an effort to administer the law.

The rates under the Wisconsin law in regard to individuals are graduated after the exemptions have been taken care of. On the first \$1,000 of net income the individual pays one per cent. So that in case of a husband and wife with an income of \$2,200, the tax would be \$10. The second \$1,000 pays one and one-fourth per cent.; and it is graduated up by slow steps, one-fourth of one per cent. and then one-half of one per cent. until the net income reaches \$12,000, after which it is six per cent.; but this first \$1,000 is always one per cent., and the second one and a quarter per cent.,

and so on, so that the rate of six per cent. is never quite reached in the case of individuals.

In the case of corporations, the graduation is different. There the graduation is based on the earning capacity of the dollar, or of the assessed value of the property. The rate is ascertained by dividing the net income by the assessed value of the property contributing to the income, and if the ratio thus ascertained does not exceed one per cent. the rate upon the corporation income is one-half of one per cent. If it exceeds one per cent. but does not exceed two per cent., it is one per cent., and it is graduated upward in that way until the rate reaches six per cent.; but the rate applied to the corporation reaches the whole income of the corporation, and not, as in the case of individuals, only the different steps. One of the points raised before the supreme court was, that there was discrimination between individuals and the corporations which could not be permitted under our constitution, which provides that the rule of taxation shall be uniform. The court has been fairly liberal in former decisions in permitting classification of property, and it said that this was a natural and permissible classification.

There has been considerable opposition to the law. It is charged that it is inquisitorial. The administrative features of our former personal property tax law was used largely as a basis for this law. Under our law in regard to the assessment of personal property, we had a provision similar to that which was stated here with reference to Connecticut this morning—or Rhode Island by Governor Bliss, where, if the assessor is not satisfied with the statement made by the owner, he can put such a valuation upon the property as he deems proper, and he is not required to give any reason for such assessment. That has been the law in Wisconsin for years, and our law provided that if the taxpayer was dissatisfied he must appear before the board of review and make full disclosure of all his personal property or be deprived of any relief in the courts. In reference to the assessment of incomes that same provision is incorporated into the law, namely, that if the assessor of incomes, in the case of individuals, or the tax commission in the case of

corporations, is not satisfied with the returns, they are authorized to use the doomage power, so-called, and to make such assessment against the individual or corporation as they deem proper. They must notify the party assessed so that he may appear before the board of review or before the tax commission and make full disclosure of all his income, or he can have no relief. That provision is simply copied from our personal property tax law, so that there is nothing new about it. It is a matter that has been tested in the courts and has been fully sustained.

The income tax law exempts from direct taxation as property moneys and credits, stocks, bonds and securities of all kinds, household goods and furnishings of all kinds, and farm, garden and orchard implements, machinery and tools, so that we have exempted from taxation property in the state of Wisconsin that yielded heretofore, as closely as we could estimate, about a million and a half dollars in revenue. That property is now entirely exempt. We have tried to take away from the local assessor those classes of property that presented the greatest difficulty in assessment, unless I except from that statement merchants' and manufacturers' stock. These other unenumerated and indefinite classes of personal property, have been entirely exempted from direct taxation and they no longer go upon our local assessment rolls, so that I expect that the local assessors will do much better work this year than they have done heretofore. We have not reports from the entire state as yet. We know that in many portions of the state the local assessor has really endeavored to assess property at its full value as the law provides, and as it always has provided.

Under a law which was enacted in 1905, the tax commission is authorized, when it finds that the assessment in any district is not in substantial compliance with law, to order a re-assessment of such district. We have exercised this power in a number of instances, and we generally find it to be the case, that the smaller holders of property are much better assessed than those who have large holdings of personal property. That is especially true when you come to large manufacturing establishments. We revalued the city of

Racine some years ago on an appeal from the county board in regard to the equalization between the different assessment districts, and when we came to investigate the matter upon the statements of the parties themselves, we had an increased valuation in that city of \$10,000,000. Last year we re-assessed entirely the city of Janesville, which is a city of 14,000 inhabitants, and with quite a little manufacturing in it, and our re-assessment there, which was an assessment of each individual property, resulted in an increase of \$6,000,000, or from \$11,000,000 to \$17,000,000 in value. And the increases were largely of the classes of property to which I have referred. In one case we had to multiply the valuation of a manufacturing establishment eleven times, the property having been assessed by the local assessor at \$6,000 and our assessor making the valuation \$66,000. Now the income tax would meet such a situation as that, if the manufacturer were doing a prosperous business. And is it not reasonable to suppose that any large establishment, any large manufacturing plant or any large mercantile establishment, can more easily give the net profits of its business during the year than it can the exact valuation of all the property in the establishment on the first day of May? That seems quite reasonable to me, because necessarily books are kept, and the larger the establishment the more accurately are the books kept. We can say from the experience we have had in auditing these returns that the larger the establishment the more accurate is the bookkeeping and the more accurate the returns.

If I may be permitted to digress, I wish to say on behalf of the tax commission of Wisconsin, that they have never had any reason to doubt the absolute accuracy of the returns made by the railroads of the state of their earnings or their expense accounts. I want to say that for the benefit of Brother Crandon and Brother Dudley. We may have disagreed as to the valuation, but we have never questioned their returns. It is necessarily so, because these large concerns must make returns to their stockholders as well as to the tax commission, and they cannot juggle with their returns. If

there be any juggling I would look for it in the small establishments rather than in the larger ones.

How will this tax affect different individuals or the different industries? It has been stated in Wisconsin, and stated with considerable vehemence, that the income tax will drive industries out of the state. As far as we can ascertain, while there have been charges of that character from different parts of the state, there has not been a bona fide case established thus far where an industry has taken steps to move out of the state because of the income tax law. Why should it? If we exempt from taxation all personal property, as I think we should to be consistent, and as I think it may be possible we may do next winter unless the income tax law is repealed entirely, then no manufacturer in Wisconsin would pay a tax unless he had net earnings. Heretofore, like every other state that has the property tax, we taxed the manufacturing establishment before it turned a wheel or earned a dollar, upon all the property which it possessed or which the assessor was able to find, but under the income tax law no tax will be collected unless there are net earnings. Under the provisions of our income tax law, it is only as the earnings increase with reference to the assessment of property contributing to the earnings, that the rate will increase, and it can never exceed six per cent. Now that six per cent. is a low rate, although at first blush I know the average individual—nobody probably in this audience would think of it in that way—naturally thinks six per cent. is a very high rate, because he compares it with the property tax rate. But six per cent. on the income of five per cent. security is, as you can readily see, equal to a three mill rate upon the face value of the property. So it is a very reasonable rate. The legal interest rate in Wisconsin is six per cent., and the income tax would be three and six-tenths mills of the face value of the property drawing that rate.

It is quite evident that the tax will be collected largely from the cities and villages; a large part of it will come from professional men or retired people who live from the income of investments. It will come from salaried men, and it will

also come from those corporations and men engaged in industries who have good net earnings and a small stock of goods on hand on the first day of May. To illustrate, for many years representatives have come before the legislature from Milwaukee and asked that the assessment of stocks of coal on the docks in Milwaukee be changed so that it should not be made on the first day of May like other property, but that the average of the stock during the year might be assessed, because in our climate, and because of the closing of the lakes for navigation during the winter, there is scarcely any coal in stock on hand on the first day of May. At that time it is all sold off, so there would be a very light tax imposed upon people in that business. Now when a coal merchant reports his net earnings for the entire year, we equalize that matter as far as he is concerned, and so we do in reference to other industries.

I had a letter from a manufacturer of paper up on the Fox river, some time ago, and he complained because it so happens that in their industry the stock of raw material is very large on the first day of May, and the stock of manufactured products is also large because the manufacture up to that time is heavier than it is later in the season when there is low water. He complained because they are hit hard under the property tax. If their material and product were exempted entirely we would get the revenue from their income based upon their activities during the entire year.

The income tax law in the state today has been affected by several things that were peculiar to the year 1911, which is the year upon which the income is based that we are now assessing. The manufacture of lumber during the year 1911 was at rather a low ebb. Prices were poor. By the way, lumber has gone up within the last three or four months. Hemlock has gone up three or four dollars a thousand. Last year it was depressed. That is reflected in the earnings for the year. It was hardly a normal year, and still we expect to get approximately \$3,000,000 in taxes from incomes. Now with an ordinary year with the prices as they seem to be and as they promise to be during the fall and during the year of 1912, which would be the basis of next year's assess-

ment, I would look for a much larger income from that source, and that is quite an important industry in Wisconsin.

At the time that the law was under consideration in the legislature it was impossible to foretell, with any degree of certainty, what revenue we could depend upon from the income tax. It appears now, however, that we shall undoubtedly collect much more revenue from the income tax than we collected from those classes of property which are exempt by the terms of the act, and as far as we can foresee now I think it is fairly safe to say that the income tax will yield two millions and a half to three millions of dollars instead of the one million and a half which was what was contributed by the property which the law itself exempts. To that extent it will decrease the necessity of raising revenue from direct assessment of property. Because neither the tax commission nor anybody else, for that matter, was able to give any estimate of what could be expected from the income tax, the legislature refused to exempt all personal property from taxation. It was my opinion at the time as it was that of the other members of the commission, that the legislature ought to have exempted all personal property from taxation, but it refused to take that advanced step and insisted on retaining on the tax rolls all personal property except those classes that I have spoken of, and such other classes as had been exempted by previous laws. I think yet that the logical outcome of our income tax law will be to exempt all personal property entirely from taxation.

In order that there should not be the accusation of double taxation with reference to both personal property and incomes, the legislature put into the bill a provision to the effect that when taxes are paid next winter, the man or the corporation that pays a personal property tax may take the personal property tax receipt and apply it as so much cash on his income tax. I know of only one place where there is a similar law. In a recent codification of the taxation laws of the province of British Columbia, where they have both the income tax and the property tax, they have stated it more happily than we have. They say, if the income tax is larger than the personal property tax, the taxpayer shall

pay the income tax; but if the personal property tax is larger than the income, he pays the personal property tax. That is a plain, direct statement. There is no misunderstanding, and that is what our law amounts to as it stands now.

Now we have had pretty full returns from Dane county, which is the second county in valuation in the state, the county where Madison is located. They had a very good assessor of incomes in that county, and we have also audited tentatively, the corporation returns from the county. I have a synopsis which was published in one of our papers of the results in Dane county. The entire income tax on individuals amounts to \$44,000, on corporations \$65,000, making \$109,000, in all, of taxes from incomes in Dane county. A large part of that,—much the larger part of it,—is in the city of Madison. In reference to individuals, \$38,000 of the \$44,000 will be collected in the city of Madison. Less than five per cent. of the people of Dane county will pay any income tax. Seventeen wealthy men will pay twenty-four per cent. of all income taxes in the county. Sixty-eight farmers only pay income taxes, and that is a rich farming community, and they pay a tax of twelve dollars and ninety cents each on the average. Two hundred and sixty-two mechanics pay income taxes, and they average three dollars and seventy-nine cents each. One hundred seventy clerks and bookkeepers pay income taxes, and they pay at an average of two dollars and ninety cents each. Seven laborers pay income taxes at an average of one dollar and ninety-six cents each. So we have taken fairly good care in our income tax law of those classes of the community that must be looked after first if we are going to do away with the dissatisfaction and unrest that frequently come to the surface among laborers in this country, and among those individuals who think they do not have a fair chance with others of their fellow citizens.

There are some other statistics given as to how this tax will operate with reference to the personal property offset. I find one large establishment in the city of Madison that paid \$364 personal property tax last year. That establishment will pay \$2,285.44 income tax. It has been said that

the income tax will operate severely on estates, but as was stated here this forenoon it was the intangible property of estates generally that was reached under the personal property tax, and that is evident in these returns. A very large estate in Madison paid \$1,941 taxes last year, and will pay an income tax of \$1,896, so that the personal property tax in that case, if it is the same this year as last year will entirely wipe out the income tax and the estate will pay the personal property tax as heretofore. I find one individual who paid eighty-four dollars personal property tax who will pay \$768 income tax. Another individual paid thirty-six dollars personal property tax, and will pay \$760 income tax, and it runs along that way down the list. There is another large estate mentioned in this list that paid \$985 personal property tax last year, which will pay an income tax of \$100.27. So that the charge that the income tax will fall with special severity on estates certainly cannot hold true, because it is the income from securities that is taxed now instead of the face of the security itself.

The situation in Wisconsin is somewhat peculiar today. I read in the papers this morning that the candidate for the democratic nomination for governor, who was running on an anti-income tax platform, won out yesterday. The republican candidate nominated is in favor of the law with such amendments as may prove to be necessary and which will be presented to the coming session of the legislature. So we have, as it seems now, a good, clean-cut, economic issue before the people of the state of Wisconsin this fall, an issue as to whether the system of taxation which we have had heretofore shall again be introduced, or whether we shall develop the theory of the income tax law. And I believe that it is rather fortunate that the issue is squarely made and that an issue so clean can be presented by each party to the people during the coming campaign, and be discussed throughout the state, because it will give them information not only as to this law but as to the operations of the law as we have had it heretofore, and the people of the state ought to have the benefit of a thorough discussion of economic questions of that kind.

DISCUSSION—WISCONSIN INCOME TAX

PROFESSOR THOS. S. ADAMS (Wisconsin): May I add a word to emphasize the important fact that the income tax has brought with it the appointment of all the assessors under civil service conditions. Politics or secondary considerations play no part. The income assessors were selected on merit through the state civil service commission. That seems to me a great advance. Secondly, they are divorced from local pressure, from local control, and left free to assess and administer their office as their conscience may dictate, prodded by a resolute tax commission. Far more important still, these men act as supervisors of assessment. They have general oversight of the local assessments of the state. They have the right to bring appeals for re-assessment, to advise with the assessors, check them up, and institute reforms of a variety of kinds. As a result of this the ordinary assessment of property is going to be very much better in the state of Wisconsin than it has ever been before. We have here a system of assessors with large power in the local property assessment, as well as complete power in the income assessment, who are appointed under civil service, hold office during good behavior, and have no standard to meet except that of a faithful and earnest performance of the duties of their office.

MR. A. E. SHELDON (Nebraska): I should like to ask Mr. Haugen at least one question. It is this: What reason have you for believing that the returns of income are fairly truthful and accurate? What means of investigation do your division assessors have?

MR. HAUGEN: The income tax assessors in the different districts may not have as full information as they will have, after serving a year or two, because this is a new question and the districts are pretty large. But they have a right to examine into the matter. If they have any reason for questioning the return of any individual they can exercise

the right of estimating the income and compelling him to go before the board of review and make full disclosure under oath. By the way, our court has held in reference to the personal property tax that that means that the individual is not permitted to submit an affidavit. He must appear in person so that he can be cross-examined. Of course, "He who a perfect tax would see, seeks that which never was, is not and ne'er can be." We don't expect it to be perfect. We do expect it to be better than the old system. It is a movement in the right direction. We hope to have a better law than we have now. There are some things about the law indefinite and vague. For instance, I can mention one thing, the law requires reports to be made by guardians, executors administrators and trustees; provides that they shall report, and stops there. It does not say whether they shall pay the tax, or whether they shall claim the exemptions for their beneficiaries. Things of that kind ought to be cleared up. But your question is, whether the returns made may not be untruthful in part. It seems to me anyway, this is the first year, with this new system of requiring sworn returns that we are getting pretty honest returns. I want to say this, that in Wisconsin we have not been requiring individuals to make sworn returns of their property, except as to moneys and credits, and as to moneys and credits the law has been a dead letter for years.

MR. SHELDON: You think the returns are much more accurate and truthful with reference to a man's income than with reference to his credits and money?

MR. HAUGEN: The fact is that in many assessment districts the assessor has made no effort to get moneys and credits. We have six counties where for several years not one dollar of moneys and credits has been assessed, and one of them contains the second largest city in the state. The income tax assessors being free from local influences require everyone, except persons who are obviously within the exempt class, to make report. I believe on the whole the returns have been very good.

Corporations return to us the names of employes that receive more than \$700 a year salary and their residence.

They report dividends paid to individuals, and their residence. In order to avoid double taxation, the individual who receives dividends from a corporation that pays tax upon its income, while he reports his dividend, may deduct it on the next page. He is permitted to use it as a deduction because the corporation has already included it in its taxable income. That applies to corporations that are subject to the income tax law. In the case of corporations that are not subject to the income tax law, and there are a few such, their dividends are not deductible, but must figure in the income of the individual. For instance, while the law does not say so in so many words, we thought, that under the federal statute, a national bank could not be reached under our income tax law. The United States statute provides that national banks shall be assessed in one particular manner which is defined in the statute itself. An individual who receives a dividend from a national bank must put that dividend into his return and cannot deduct it.

MR. ROLLIN E. GISH (Oklahoma): Could I ask Mr. Haugen whether his department has ever prepared any general rules or regulations as to what deductions are proper in order to arrive at a net income?

MR. HAUGEN: I must say that we have not as definitely done so as we probably ought to do; but it was almost impossible to do it in advance. We have much more light on that subject than we had before we tried to administer this law. We have, of course, had to adopt rules from time to time. For instance, one rule that we found it necessary to adopt is this, that mere fluctuations in securities cannot be recognized as depreciation, because a depreciation this year would probably be reported while appreciation next year would not be. And that is in line with the construction of income tax laws in other countries. Then the question of the depreciation of property, whether the exhaustion of a mining property should be figured as a deduction of capital assets. In England that is not recognized at all in the income tax. They don't permit any deduction for that. We should probably permit something, but then the question is, what the basis of it shall be? Shall the basis be the book value of

the property? That may be put at several million dollars whereas it may have cost only a few hundred, or may have been obtained on tax title for a song. We have come to the conclusion that it should be actual cost if we allow anything. There are a number of questions of that kind where definite rules should be adopted, and perhaps some of them should be fixed by legislation or be recognized directly by legislation.

Another matter along that line: This question arises with us and it has been a very troublesome one. A large corporation up in the northern part of the state erected a paper mill last year. In the fall of 1911 a flood came along and wiped out the plant; didn't wipe out the property entirely, but injured it so the stockholders had to go into their pockets and raise \$200,000. It was a depreciation of the stock which they held by a very material amount. Whatever net earnings the corporation had were wiped out, and the loss would have been recognized in the corporation return. Can the loss be transferred to the stockholders and recognized as a loss to them also? That is a difficult question. We have ruled against it. It looks like a hardship. But a line must be drawn between the corporation as an entity and the stockholder of the corporation as a person, and the two make separate reports, and the loss of one cannot be transferred to the other. That is the theory we have gone on.

Perhaps I might say this in that respect, that it is generally safe for an administrative body like the tax commission to take the view of the public on a question of that kind, so that if the individual desires he can bring the matter before the courts and get a judicial construction. If we take the other view the public practically has no remedy. So if we have erred in matters of that kind, we have tried to err on the side of the public instead of on the side of the individual, where the question is a legal one and a debatable one. There are many questions of somewhat similar character that come up constantly, and still there are not as many of them probably as you might have expected in the 10,000 corporations which we have to consider.

The question may naturally be raised here as to where

this tax goes. This is a local tax and not a state tax. The state revenues of Wisconsin are derived largely from corporations. The railroads pay us something over three million dollars a year. The insurance corporations pay us four or five hundred thousand dollars more. That goes directly into the state treasury and remains there. The street railways pay something, and then the inheritance tax last year amounted to about a million dollars. So we raise very little revenue directly for state purposes. This tax is a local tax. Ten per cent. of it goes to the state, but the state pays all the costs of administration. Twenty per cent. goes to the county, and seventy per cent. to the local subdivision, town, city or village.

Now as to the cost of administering it. We have made a statement, and I think it is fairly safe, that the cost of administering the income tax law will be in the neighborhood of \$85,000. That is not however the net cost to the state. The net cost to the state is about \$30,000, because the assessors of incomes have taken the place of seventy-one local officials that were formerly elected by the county boards, and who were known as supervisors of assessment. Those men cost the different counties \$54,000, and if we make an assessment for \$85,000, you see the net increase in the cost will be the difference. We rather congratulate ourselves on holding the expense down as we have.

MR. HARDIN BENNION (Utah): I would like to ask the gentleman a question. When these assessors of income took the place of the other assessors, who does the work that was being done by them before?

MR. HAUGEN: We abolished that office and the assessors of incomes have taken over the additional duty, and have supervision over the local assessment, as Professor Adams explained a little while ago. We have in Wisconsin local assessors of property. They are elected by the towns, but these assessors of incomes have supervision over them, and the tax commission has general supervision over the local assessors and over the assessors of incomes as well.

MR. A. E. SHELTON (Nebraska): Are your assessors county, precinct or township assessors?

MR. HAUGEN: They are township assessors. We have the old Massachusetts township system of government. We got it from Michigan when we were a part of the territory of Michigan, and the township system of government and the property tax as it was in Michigan have practically remained with us for sixty-four years since the organization of the state without any change until this income tax law stepped in.

MR. SHELDON: How are they appointed?

MR. HAUGEN: They are elected at the town meeting in the spring.

MR. SHELDON: I went to your state in 1849 as a child, and I was bred there. I was asking as to the changes.

MR. HAUGEN: The system has not been changed. We are under the township system of government. Of course in many cities the assessors are appointed or elected practically by the common council. In some of the smaller cities they are elected the same as any other local official.

PROFESSOR C. J. BULLOCK (Massachusetts): It seems to me worth while to call attention to the truly remarkable character of the report that the gentleman from Wisconsin has just made upon the working of the Wisconsin income tax. Up to the time of the enactment of that income tax, there were very few students of taxation in this country who were not convinced that no state could hope to administer satisfactorily a tax upon incomes. I have said that myself in print, but that was a dozen years ago; and I am glad to say I had changed my opinion on that point and also put that into print two or three years before this Wisconsin tax was enacted. Apparently students of taxation must, at least with regard to Wisconsin, revise all of their ideas in regard to the impossibility of a state administering with reasonable success a tax upon incomes.

In regard to the question asked a moment ago by the gentleman on my right in regard to the means of knowing whether or not full returns of income were secured in Wisconsin, Mr. Haugen might very well have added what the head of the income tax department of Wisconsin told me last spring, that after conferring with people about their

income tax returns and getting their returns, he was not only satisfied that in the main in the overwhelming majority of cases they were giving honest returns, but was also satisfied that the people on the whole were making them pretty cheerfully, and with a sense of relief and satisfaction that they had at last got a tax law under which they could make honest returns.

Now the statement is a remarkable one, because it is a statement of the first consistent attempt made in this country to carry through a comprehensive reform of personal property taxation. Other states, by enacting three-mill tax laws or by registration taxes or one thing or another, have improved the details of their system, and may be working by such method and classification towards something that will ultimately be a systematic solution of the tax problem along the line of a property tax; but here is the most comprehensive and systematic attempt yet made, and apparently with success.

The third point I wish to make has been made by Mr. Adams of the Wisconsin commission already, namely, that here we have the first attempt on American soil to carry out the taxation of either property or income by means of assessors responsible directly to state control and free from local influence. Of course with our federal income tax during the Civil War we had an experience with assessors free from local control, but here is the first attempt made in the states, which has brought with it a remarkable forward step in the whole work of administering income and property taxation. I feel that all persons in the country interested in the subject of the reform of the general property tax must feel a deep debt of gratitude to the state of Wisconsin for carrying through this successful experiment, and to the Wisconsin commission for the intelligent and efficient manner in which the work has been done. As I told members of the commission when I had the pleasure of spending a fortnight in Madison last spring, it was absolutely necessary for them to succeed with this law, because, had they made a mess of it, it would have set back to an incalculable degree the work of re-

forming the taxation of personal property in the other states of the union.

[NOTE: The total income tax assessed in Wisconsin amounts to \$3,501,161, of which \$2,392,454 or 68 per cent. is assessed against corporations, and \$1,108,707 or 32 per cent. against firms and individuals. The offset of personal property taxes will probably make the net yield of the income tax about \$2,300,000. The average rate of taxation was 5.4 per cent. in the case of corporations and 1.96 per cent. in the case of individuals and firms. The total cost of administering the tax in the year 1912 was \$86,792, and the net cost—over and above the cost of the supervisors of assessment who were replaced by the assessors of income—approximately \$33,000. The income tax was distinctly ratified and its retention ensured by the November elections.]

THE CHAIRMAN: Gentlemen, I have been asked by Mr. Bliss, the chairman of the committee on resolutions, to say that immediately after this meeting this afternoon the sub-committee of the committee on resolutions is requested to meet in this room. The sub-committee of the committee on resolutions is as follows: Professor Bullock of Massachusetts, Mr. Hall of New York, Professor Brindley of Iowa, Mr. Haugen of Wisconsin, Mr. Link of Indiana, Mr. Galloway of Oregon, and Professor Todd of Ohio.

The meeting then adjourned.

SIXTH SESSION

WEDNESDAY EVENING, SEPTEMBER 4, 1912

CHAIRMAN, LAWSON PURDY, NEW YORK CITY

PROGRAM

1. COMMITTEE ON ASSESSMENT OF REAL ESTATE.
Edward L. Heydecker, Assistant Tax Commissioner
New York City; Secretary State Conference on Tax-
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2. TAXATION OF BUILDINGS IN BUSINESS DISTRICTS AND
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George E. Pomeroy, Chairman Ohio State Board of
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Kansas Tax Commission: Samuel T. Howe, J. A. Bur-
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TION.
Fred Rogers Fairchild, Assistant Professor of Political
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REPORT OF COMMITTEE ON ASSESSMENT OF REAL ESTATE

THE CHAIRMAN: We have several papers left over from this morning's session. First we will have a report from the committee on real estate assessment. Mr. Heydecker of New York is to make the report for that committee.

MR. EDWARD L. HEYDECKER (New York): The committee on real estate assessment has no written report to present to this conference. This committee has presented two reports, one at Richmond last year and one at Milwaukee the year before. In the first report presented at Milwaukee the committee proposed a scheme of classification for urban and rural lands, but which chiefly concerned itself with a classification of rural lands for purposes of assessment. That recommendation has been accepted in part at least by the Kansas commission, and the next paper upon the program will tell of their experiences under an attempt to classify lands. The committee thinks it proper to wait until we learn what has been the experience of Kansas, and after that to present a further report, if it is deemed advisable, upon that point. The second report of the committee presented a year ago at the meeting at Richmond concerned itself chiefly with the methods of assessment to be employed by local assessors, and the suggestion of rules and tables and other means that would enable them to do their work in an accurate and scientific way. This report is part of the proceedings of the fifth conference. Those proceedings were not published until some time in the spring of this year, I think around March or April. At the time that the proceedings appeared in print the New York tax reform association was moved to print 4,000 copies of the report, and those reports were sent to the mayor of every city of 8,000 or more in the United States, and to the taxing board or assessors of every one of those cities. They were also sent to every taxing board in the state of New York, both cities and towns; and to every taxing board in the state of New Jersey. With the co-op-

eration of Mr. Corbin of Connecticut, they were sent to every taxing board in the state of Connecticut. All of this was through the effort and courtesy of the New York tax reform association. In addition to that, the taxing board of the city of New York has printed a book of factors of value of new buildings and an explanation of land value maps, and those have been sent as widely as possible by the department of taxes of the city of New York. But they were unable to print more than a limited edition, and the New York tax reform association was again moved to order a thousand copies of this report, and they have sent those out as widely as they can to the taxing officials of the large cities of the country. This book is an attempt to suggest methods for valuing buildings, and an explanation of the land value maps in use in the city of New York, which are drawn in accordance with the recommendations of the committee. We have not yet had time since those were sent out to receive suggestions and comments from the tax officials of the different cities of the country. The committee hopes to receive those and has invited criticism and comment and suggestion. It may be that a year from now we will be able to present some report along those lines.

**TAXATION OF BUILDINGS IN BUSINESS DISTRICTS
AND WORK OF A VALUATION COMMITTEE
IN THE ASSESSMENT OF REAL
ESTATE**

BY GEORGE E. POMEROY

Chairman Ohio State Board of Commerce

To speak understandingly regarding the taxation of buildings in business districts, we should make three classifications.

We will consider first the old or antiquated buildings that have been in use fifty years or more and cannot be considered as having any value. Yet the conditions surrounding by way of lease and occupancy may justify one. If the land has been appraised at its true value, the way is clear for the taxing body to handle the particular piece with judgment.

It may be difficult to learn what the real income is from a piece of property of this character. What the owner receives is not a criterion. The tenant has been obliged to spend a great deal of money upon the property in order to make it attractive for his business, all of which must be added to the amount of rent he pays in order to show what that item really is. I have in mind one case where a tenant desiring twenty feet next him, paid \$14,000 to get possession of the same and put it in order to incorporate with his existing occupancy. His lease was not a long one and it was running at the rate of \$3,000 per annum. In reality this twenty feet was costing the tenant between \$7,000 and \$8,000 per annum.

There is no doubt at all that if the owner had the necessary capital in hand that it would be much more for his interest to construct a modern building thereon than to permit old buildings to remain, on which he could only receive what would be merely a return on land value.

Under the second classification, we will consider the new buildings built for a special tenant covering a large amount

of ground; say one hundred and twenty feet frontage or more, and which is leased to him under a long rental. To illustrate from an existing lease with which I am familiar: the tenant was burned out and a new building constructed as he desired, fire-proof, reinforced concrete with tile facings, and under a lease given for thirty years, covering three ten-year terms. The rent to be based upon six per cent. interest on both land and building with all expenses of upkeep, taxes, assessments and insurance added. Now here is an ideal investment. The check comes every month in advance from one tenant, sufficient insurance is deposited and kept good, and the owner has little or no concern regarding his investment.

This lease at the time it was made seemed to the owner to be perfectly satisfactory. As a matter of fact the land values increased to almost double within the first five years and the thirty year lease may be said to be worth \$100,000 above its cost to the present tenant. Now it seems to me that here arises a property value that is taxable. The tenant gets a desirable location for a long period of years and at a much less rental than it could be re-rented for at the present time. The neighborhood has grown into a more desirable one and the demand for locations is active and at increasing figures. This example shows the way clearly to the taxing body. The tenant pays on both building and land, and his advantageous lease makes his load a favorable one.

In the present method of conducting retail business any number of feet above twenty, but especially extending to a frontage of 100 or more feet is worth more per foot front than the simple business lot of twenty feet, and the opportunity to erect buildings thereon that are in the present modern demand makes a more valuable property both in building and land.

The third classification is the office building. We find that there are structures that are insufficient in size and inadequate in modern construction and improvements, resulting in many vacancies and low returns to the owner. The building is of such construction that it is difficult to modernize it and make it desirable or competitive to the newer and more attractive office buildings. Buildings of this character should be treated

very liberally by the taxing body that it may not further depreciate the value of the property and thereby cause a further loss to the owner and the municipality.

Office buildings of modern construction and convenience and high class business management may be considered from the income point of view, and this without being unfair or burdensome. I find great difficulty in learning the true income of modern office buildings. Conducted as they should be, it is really a private business and is not readily obtained. The owner does not desire to give out the profits that arise from his investment. If his management is of the highest class, he does not wish the public to know on what percentage of operation he is conducting the building. If on the other hand it is below an average, he does not wish that fact to be known.

I very much doubt if office buildings produce a net result that they are supposed to do. I very much doubt if a building's books are kept in as complete a way as those of a prosperous manufacturer. Depreciation and upkeep are not sufficiently classified to show that they are deducted from an income and how the ultimate net is affected thereby.

To proceed further along this line of thought, the income of an office building must vary from year to year, and if there is such a variation of from ten per cent. to twenty per cent. in a year, you will readily see that that comes off of the ultimate net and becomes a serious percentage. Hence if these properties could be valued each year from the book showing, a fair method may be adopted by which to tax them.

The conclusion arrived at from the foregoing is, that no fixed rule can be established for valuing buildings in the business district, but experience and knowledge of the conditions pertaining to each parcel will guide the taxing body along safe and satisfactory lines, if the ground has been appraised at full value, and the buildings where antiquated treated as of little worth. When the buildings are in the best retail district and are large and in every way up to date and under long lease to high class tenants, then the valuation should be full and on the same basis as the land. Where the property is of office building character, the basis of value should be the

income, and where the management is high class, the valuation should be along the line of full value.

Where the building is second or third class, the appraisal should be so as not to penalize and depreciate the whole value, for the land will suffer thereby as well as building.

When buildings are on rapidly increasing land values, and rentals are at a very low per cent. of both values, buildings should be treated with a liberal consideration, that rents may increase without undue incumbrance or scare from taxes which will result in increased tax value.

I believe that better relations now exist between the taxpayer and the taxing body than ever before. The attempt in Ohio to bring tax values to their true value has met with success and the owner is satisfied with a less amount of tax levied which arises from the full valuation.

This does not occur where a rapid advance in values has occurred during the period from 1900 to 1910, but the increase in value has been so marked, the owner is commensurated thereby.

His rents have not kept pace with the advance in value and for this reason the building valuation should be treated liberally.

The benefit of this better understanding between the taxing body and the owner will be far reaching. It breeds a disposition to fairness on both sides, and confidence in the officials.

There will always be the shirker of taxes, as there will always be the shirker of public duty, but never before has the evidence been so clear of the disposition of the large taxpayer to be willing and ready to bear his share of the burden.

For the purpose of putting into the records of this conference and for the benefit of cities who are still arriving at values through the calling of expert witnesses where the matter comes into court, I desire to give a brief account of the importance of the valuation committee of the real estate board, whose work is now accepted by the bar of the city and by the city of Toledo itself where values are in question, and by the courts where it comes under their province to name a jury for the fixing of values.

In 1910 when the quadrennial assessors set out to value property, the real estate board found that they were following the old methods of decennial assessors, which had proved to be of very poor reliance. The real estate board elected a valuation committee of five of the most experienced members and to them was given the duty of making an appraisal of the business district of the city for the use of the board members. This committee had the power to call in any member of the board that it thought had inside information regarding the sales of property, or where offers had been made on the same. After almost daily work for nearly three months, the business district of the city had been valued and noted on maps the board had prepared for this purpose.

The real estate board had offered its services to the quadrennial assessors to assist them in any way in making up their schedule of values. The quadrennial assessors did not see fit to accept this gratuitous service. The board then offered its service to the board of review, which was gladly availed of, and the board of review at once began a close co-operation with the valuation committee and with its assistance their books were completed within the time limit allowed them. The board of review were extremely grateful for the service of this valuation committee and expressed themselves in strong terms of commendation of the purely disinterested work and the valuable time put upon it.

A knowledge of this service to the city without remuneration soon began to be known to the different boards where the fixing of values usually is considered, and the real estate board then went further, and offered its service to the city in fixing values of a large amount of property contiguous to the court house and which was to be acquired for city hall purposes,—and several squares were purchased upon the valuation found by this valuation committee. This work as I have said was all in the line of good citizenship and hoping thereby to build up a respect which would stand any kind of criticism.

At this time in nearly all cases where values are necessary, the real estate board is asked to fix them. It has its own blanks of certification for three or more of this committee, which has now been increased to seven. It also certifies that no one of

the signers has any interest in or near the property appraised.

It takes some time fully to appreciate how valuable a bureau has thus been given life and which is acknowledged by all who have come in contact with it to be a highly meritorious working body. It is a sacrifice on the part of the individual members as they are required to give up their trade secrets, which they have willingly done. In cases where the valuation is made for incorporated companies or for individuals, a regular fee is charged. One-half of this goes to the real estate board and one-half to the members of the valuation committee who have done the work.

Heretofore it has been impossible to get at a fair value of property under condemnation proceedings because each side has its interested witnesses. The witnesses on each side know what they are there for, and the jury straddles between the two sets of testimony.

I know of no other real estate board that has been as effective as that of Toledo in this matter, although I believe that other cities are following Toledo's lead. You will readily see that it is a perfectly practical proposition, and one that can be made immensely valuable not only to the interested parties on either side but also to the attorneys in the case who are thereby saved a vast amount of work, collecting the necessary testimony on which to make their case.

The Toledo Real Estate Board

Certificate of Valuation

WE, the undersigned members of the Valuation Committee of The Toledo Real Estate Board, having considered the application of Toledo Museum of Art for a valuation of the following described property, to-wit:

That part of lot number 12 in River Tract 87 containing 3.60 acres bounded by Miami Street, Woodville Street vacated, Yondota Street and Greenwood Avenue: also one acre of shore and water rights assuming the dock front to be about 400 feet do hereby certify that we have personally examined said premises, that we have no personal interest therein, and that, in our judgment, said premises have a present cash value as follows: 3.60 acres, \$1,500 per acre, \$5,400. Assuming the dock front to be about 400 ft., \$40 per ft., \$16,000. Total valuation Twenty-one Thousand, Four Hundred Dollars (\$21,400).

IN WITNESS WHEREOF, we have hereunto subscribed our names at the City of Toledo, on this 2nd day of August, 1912.

(Signed)	GEO. E. POMEROY,	E. H. CLOSE,
	JUDD RICHARDSON,	J. H. BELLOWES,
	GEO. K. DETWILER,	CHARLES FOX,
	F. A. KUMLER,	

Members of the Valuation Committee, Toledo Real Estate Board.

This Certificate to be signed by not less than three members of the Valuation Committee.

THE STATE OF OHIO }
COUNTY OF LUCAS } ss.

Personally appeared before me, a Notary Public within and for said County,.....
.....
.....
members of the Valuation Committee of The Toledo Real Estate Board, who being duly sworn, say that the valuations found and statements made in the above Certificate of Valuation are true, as they verily believe.

Witness my hand and official seal, this....day of....., 19..

Notary Public, Lucas County, Ohio.

The foregoing affidavit to be executed only when the nature of the appraisal requires it to be certified under oath.

CLASSIFICATION OF REAL ESTATE

BY SAMUEL T. HOWE, J. A. BURNETTE, B. F. MILTON

Kansas Tax Commission

The National Tax Association is concerned with the solution of what may be easily considered among the most important, if indeed, it is not itself the most important, of all present day governmental problems.

There are two features of modern taxation which perhaps more than all others are sources of complaint and discussion: First, the constant increase from year to year in the amount of taxes required to satisfy the annually increasing public budgets; and second, the inequity of the incidence of the tax under the tax systems which now obtain in many of the states.

The demand for increased public revenue with each succeeding year causes never ending complaints among taxpayers, and the discussions go often to the length of unjust and severe criticism of the executive and administrative departments of government. Utterances from the political platform, which entirely ignore the fundamental principles of the question and too often either ignorantly or wilfully misstate facts, seem to influence public thought upon matters of taxation much more than do the opinions of learned expert students of the subject, or the officially reported conclusions of experienced administrative tax officers. It is unfortunate that the prejudice of the taxpayer is more easily appealed to than is his desire to be put in the way of right thinking as regards the equitable apportionment of the burden which must be borne for the support of government.

In a statement recently published by the Kansas commission, it was shown that during the eight years extending from 1903 to 1910, both inclusive, the increase by percentages of the

taxes raised by the different taxing districts of the state was as follows:

Increase in state tax.....	14	71/100%
Increase in county tax.....	26	64/100%
Increase in township tax.....	36	35/100%
Increase in city tax.....	51	56/100%
Increase in school district tax.....	75	63/100%
Total or average tax increase.....	44	53/100%

An observer of these data will notice that in the taxing districts where the authority to levy tax is closest to the people there has been the greatest increase. Doubtless it should be expected that local expenditures will increase in greater ratio from year to year than expenditures of a more general character; but this only strengthens the proposition that if the burden of taxation is becoming too weighty, relief can come in greater degree from economy and retrenchment in the management of the smaller taxing districts.

Illustrative of the opportunity afforded the electors of the smaller districts is the following:

The total tax levy for the year 1911 in the state of Kansas for state, county, township, city and school district purposes was \$27,776,736. Of this amount \$3,332,465 was for state tax, the latter being 11 99/100 per cent. of the total tax. The legislature direct from the people every two years makes the appropriations for state expenditures and is alone responsible for the extent of such expenditures, and yet the last two political campaigns in Kansas for the nomination and election of governor and the last campaign for the nomination of a United States senator were waged chiefly upon the proposition that the state administration alone is to be held responsible for the tax burden, and a political change in the administration was strenuously demanded in these campaigns in the interest of economy and retrenchment. When changes result from such campaigns and the "outs" become the "ins," the same old cry is uppermost in the next campaign but the tax becomes ever more weighty and the reason is that political argument and political sentiment sway the electors much more than does a well considered desire to have the business of the government

conducted along those lines which everywhere bring success in private enterprise.

When the fact is realized that the control of taxation is with the people and should be exercised most vigorously where the burden is most weighty, but everywhere exercised to the proper extent, the desired relief will come in fuller measure than is possible under present conditions.

The weightier the tax burden the more is there reason for its equitable distribution. There is general agreement among students of the subject that the "general property tax system" as a means for the equitable production of revenue has completely failed and broken down and at the present time a committee of the National Tax Association is charged with the duty of suggesting substitutes for the system which is rapidly changing from a "general property" to a "real property" tax system. In the states that have no constitutional limitations regarding the "general property system," progress can be made and is being made to more equitable systems; but in the states where the constitution provides for uniform ad valorem assessments reforms cannot be had without previous amendments to the constitutions which will permit the classification of property and the fixing of differential rates according to the economic characteristics of the various classes of property.

The creation of the public sentiment which will bring the necessary change in constitutions will be a matter of time and in the interim present systems must be administered to the utmost equitable extent possible, and hence, any movement which will tend to distribute the tax burden in a relatively equal manner among the taxpayers should be promoted.

In the work of the Kansas commission it was discovered early that the tendency of the workers in the field of assessment was to under-value the better and more desirable tracts of real estate in comparison with the poorer and less desirable properties; in other words, the poorer properties were usually assessed at a greater percentage of actual value than were the more valuable properties, and to the correction of this faulty work the commission has given special attention. Much good has been accomplished by the three real estate assessments which have been made under the supervision of the commis-

sion, but there is yet discrimination in the placing of values between the higher and lower grades of real estate, and the commission is concerned in removing this discrimination to the greatest extent possible.

To the end sought, a correct classification of real estate according to quality is an indispensable prerequisite. Such a classification with an arbitrary assignment of schedule values based in general upon market values, the assignment to be made by a central county authority, would be vastly preferable to the present haphazard exercise in many jurisdictions of the separate judgments of a number of assessors in a given county. Under present systems, where townships constitute separate assessment districts, a township line will generally serve as the basis for a study of relative values. One assessor is at work on one side of the line and another on the other side. Their ideas of value differ and they do not work in concert. The result not infrequently is that lands on opposite sides of the line of the same quality and general condition have assessment values fixed greatly differing, and when values are not fixed relatively equal in the assessment, it is thereafter a practical impossibility to get them equalized in value by the machinery appointed for the purpose. A case in point is a township line which separates two taxing districts in a Kansas county. The lands adjoining, but politically separated by the township line, are of like quality. The deputy assessor of one township placed values much higher than did the deputy assessor of the other township. The values so fixed upon adjoining tracts are here given, ranging alternately from one side of the line to the other: \$137—\$78; \$149—\$75; \$129—\$76; \$116—\$62; \$96—\$52; \$70—\$44; \$91—\$45; \$82—\$47; \$70—\$44; \$76—\$44; \$73—\$40; \$71—\$53. The only factor making for a difference in actual value, is a slightly differing site value; the higher valued lands being one mile nearer a city of 50,000 inhabitants, but this factor disappears where the lands abut. Numerous like instances could be given. That a remedy for such miserably defective assessment work is needed, will not be denied by those who are well advised. In Kansas up to the present time the proper remedy has not been obtainable owing to the failure of the public to realize the real situa-

tion. If instead of the dozen or more assessors in a county there were substituted a central assessing authority, these lines now naturally causing different valuations would be obliterated and a uniform valuation of lands would result.

As a means to the removal of the discrimination in assessments between the higher and lower grades of lands, classification was casually thought of by the Kansas commission, but the matter was not seriously considered until after the delivery of the address of Dr. L. G. Powers before the Louisville conference of this association, and the subsequent report to the Milwaukee conference by the committee on the classification of real estate, which committee was raised as the direct result of the address of Dr. Powers.

At the legislative session of 1911, the law relating to the assessment of real estate was amended so as to require the county assessor to provide each deputy assessor with a field book, in form to be prescribed by the tax commission, and to be arranged for the gathering and reporting of such facts in relation to real estate and real estate values as the commission might require.

Under the authority of this amendment the commission prescribed a form for a field book which required the reporting of the data sought. The classes of lands arranged for were substantially those reported by the association committee on classification, the only variations made being those thought necessary to form a proper classification for a state almost purely agricultural. The following statement shows the heads of classification adopted; the rules to govern the gathering and reporting of the data; and an illustration as to the manner in which the work was to be done:

DESCRIPTION	S.	T.	R.	Total number of acres	Whole Tract				Whole Tract, Classified								
					Bottom land, acres	Upland, acres	Can be plowed and tilled, acres	Cultivated, acres	Timber			Pasture			Total acres		
									Arable acres	Used for pas- ture, acres	Not so used, acres	Orchard, acres	Tillable, acres	Non-tillable, acres		Waste acres	
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.					
ALL	12	10	20E.	640	240	400	480	280	40	35	5	10	150	100	20	940	
NE $\frac{1}{4}$	15	11	20E.	180	40	120	125	90	10	15	5	2	25	5	8	180	
E $\frac{1}{2}$ NW $\frac{1}{4}$	24	11	20E.	80	20	60	50	35	5	10	5	2	10	5	8	80	

The valuation data are omitted from the above excerpt from the field book.

For convenience in explanation the columns are numbered.

For each tract the number of acres in columns 1 and 13 must be the same.

Columns 2 and 3 combined must be the same as columns 1 and 13 singly.

Columns 5, 6 and 10 combined should equal column 4.

Columns 5, 6, 7, 8, 9, 10, 11 and 12 combined must equal columns 1 and 13 singly.

Column 6, "Arable acres," should be filled in last. The number of acres to go in this column is the difference between the aggregate of columns 5, 7, 8, 9, 10, 11 and 12 and the total acreage as shown in each of the columns 1 and 13.

"Arable acres" at the head of column 6 means that part of the tract of land which *can be* plowed and cultivated, but which is not now so used, and is not of the kinds or classes named in the headings of the other columns; that is, not cultivated, not in orchard, not in pasture, and not waste land, but is land that can be used for farming, although not now used for that or any purpose.

Natural meadow land that is used for mowing purposes shall be classified in column 10 as "Pasture, tillable."

Lands cultivated to alfalfa, clover, timothy or other tame grasses shall be classified in column 5 as "Cultivated acres."

It will be observed that eleven heads of classification were selected, and that these were grouped in two divisions, columns 2, 3 and 4 constituting one division, and columns 5 to 12 inclusive, the other division. The three items in the first division were not included in the classification reported by the committee of this association, but were provided for purposes perhaps local to Kansas, and for the further object of affording a check in some measure upon the data reported under the headings of the second division.

Having in mind the machinery through which the data was to be obtained, the commission naturally had some misgivings as to whether the desired results would be realized, and in fact the measure of success achieved was greater than was expected. With the means at hand for doing the work, failures in some instances were to be looked for and did occur. Carefully prepared instructions for the work were issued, which would fully inform every assessing officer as to the requirements. In a few counties it clearly appeared that the instructions were disregarded and faulty work resulted. Many deputy assessors acknowledged their inability to do the work in proper manner and resigned their places to others. The results indicated that in nearly all the counties the data were properly gathered and reported, much care having been taken therewith, but in a few of the counties where the work was imperfectly done the matter had to have further consideration and ultimately only approximately correct results were had.

The area of Kansas is 80,891 square miles, or 51,776,240 acres. The taxable acres of rural lands reported to the commission number 50,743,551. The difference between the total acres and the total taxable acres is 1,032,689, and is made up of lands owned by the federal government, unsold school lands owned by the state, lands included in cities, roads and highways, railroad rights of way, etc.

In summing up the classification data, the totals under the various "headings" were found to be as follow:

<i>Class</i>	<i>Acres</i>	<i>Total Acres</i>
Bottom land	4,842,917	
Upland	45,900,634	50,743,551
Can be plowed and tilled		37,851,730

Cultivated	22,894,339	
Arable	2,228,461	
Timber (used for pasture)	799,311	
(not so used)	321,566	1,120,877
Orchard		212,931
Pasture (tillable)	12,728,930	
(non-tillable)	11,091,560	23,820,490
Waste	466,453	50,743,551

The cultivable acres appear as seventy-three per cent. of the total acreages and of the cultivable acres sixty per cent. plus are in cultivation.

As a result of this work there is now at most county seats information of record, which may be consulted by any interested person, showing the different kinds of land as classified for each legal subdivision. It is believed that the information thus compiled and available will be of great interest and benefit to the public.

Whether the data gathered can be made of practical use in future real estate assessments is conjectural. That material is afforded which if utilized will enable an assessment much more equitable than any had as yet, is a certainty; but it is feared that any classification obtained as was the one in Kansas will not be a perfect classification. A classification which will attain the nearest to perfection will require tax maps of sufficient dimensions to enable placing thereon for each ownership of land the exact quantities of the different classes after determining the same by survey or other means of reasonably close approximation.

The assessment of all property in the state for 1912 produced classified valuations as follow:

Lands	\$1,358,118,313
City real estate	440,221,647
Personal property	517,331,394
Public service corporation property ...	431,194,613

Total	<u>\$2,746,865,967</u>
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A computation shows ratios of the assessment of the classes

of property as above indicated to the total assessment as follows:

Lands	49.44%
City real estate	16.03%
Lands and city real estate combined	65.47%
Personal property	18.83%
Public service corporation property	15.70%

When advised that the assessment of the lands of the state is alone quite one-half of the assessment of all the property, taxpayers will readily see the importance of using every means that can be devised to adjust land values in a relatively equal manner.

Interesting features of the 1912 assessment are the separate values, reported for the first time, of lands and improvements as follow:

Value of lands exclusive of improvements	\$1,228,702,127
Improvements	129,416,186

If the present system of Kansas were changed by abolishing the office of deputy assessor and devolving upon the county assessor the duty of assessing all real estate in his county, the data now available as the result of the recent attempt to classify would undoubtedly permit an almost ideally equitable assessment. Under such a plan the county assessor should have sufficient time to do the work and an assessment every four years would answer every purpose. Much of the expense of the present system would be saved and even more desirable would be the more equitable distribution of the tax burden that would of a certainty result.

DISCUSSION—CLASSIFICATION OF REAL ESTATE

MR. A. E. SHELDON (Nebraska): I will not take more than a few moments. I wish to have special emphasis placed upon the observations of the gentleman from Kansas at the beginning of his paper, that is, the growing demand for money that is never to end, money for public purposes that is never to end until every American commonwealth is brought to the verge of bankruptcy. There is no question about that tendency, and I am very glad to hear the gentleman from Kansas bring it before this assembly. It can be merely mentioned here. The introduction of the budget is the first step to be taken. In our Nebraska legislature the tendency year after year to increase the expenses beyond reasonable needs is perfectly patent. And while we are devising the best scheme for extracting money from the taxpayers, one of the cardinal things that should be discussed at these assemblies is some better scheme for protecting the taxpayers.

PROF. T. S. ADAMS (Wisconsin): I merely want to say that in Wisconsin we also have adopted the platbook, calling for a rather minute classification of property, described further by reference to a small printed section map. We have left it largely to the discretion of the county authorities as to whether these should be purchased and used, but apparently they have been purchased and used in fully one-half of the counties, and I think that in a modest, and very tentative and doubtful way we have begun a movement which is destined to work rather notable results. This is unquestionably ascribable, I think, to the discussion of this subject in the sessions of the National Tax Association.

MR. J. G. ARMSON (Minnesota): I would like to ask Mr. Howe if they use tax maps in Kansas?

MR. HOWE: No, sir, we do not. We haven't progressed that far yet. We hope to.

MR. ROLLIN E. GISH (Oklahoma): Just a suggestion as to a subject I would like to see discussed at a future meeting of

this association. What is the proper jurisdiction and function of a state board of equalization? The gentleman from Kansas, in commenting upon the desirability of getting uniformity between the various townships suggested that there should be a central county assessing authority. Very recently in Oklahoma we saw the necessity of that, and changed our law in the year 1911. We abolished the township assessors and township boards of equalization and substituted therefor a county assessor, who was appointed first by the governor, and who will be elected after this first appointment. But we all see that this is only a partial reform and there still remains the same difficulty between the counties and the state board of equalization as formerly existed, and that is now existing, I understand, in Kansas between the townships and the county. There has been quite a little discussion in our state, and it is becoming very acute, as to what is the proper function of the state board of equalization, whether they shall simply equalize as between the various counties or whether, under the constitutional provision requiring that all property shall be taxed at its cash value, they may correct as well as equalize, and possibly not only change the total valuation of a county upon a certain, say fifty per cent. increase, or whether they may pick out any one class and change that, or change it in all counties. Upon that question I should certainly like to hear the opinions of the members of this body at some other meeting. I believe it is a very important subject.

THE CHAIRMAN: Undoubtedly. Is there further discussion?

MR. J. G. ARMSTRONG (Minnesota): Mr. Chairman, we in Minnesota are interested in the change from township to county assessors, and I would like to ask the gentleman who has just spoken if they have completed an assessment yet under the county assessors, and if so what is the conclusion as to the wisdom of the change from the township to county assessors?

MR. GISH: I think in general the people of Oklahoma are satisfied with that change. They are now looking forward to a possible improvement in the quality of the assessors, either by increasing their compensation or by change in the

manner of selection. For myself I was much impressed with the suggestion from the state of Wisconsin of the appointment by the tax commission of supervising assessors in the various counties. Our experience in Oklahoma suggests that something like that might be very useful, because we find that there is very great under-valuation in numerous counties, and in some instances the state board of equalization has increased the county valuations as much as fifty and one hundred per cent.

MR. FRANK ORR (Oklahoma) : I think I can answer the question of the gentleman from Minnesota. Last year the state board of equalization increased the total value of property in the state \$290,000,000 over the returns as equalized by county boards and township boards and as assessed by local assessors. This year the increase was only \$29,000,000. You see there is considerably over \$250,000,000 difference. We found last year a condition existing a good deal like the gentleman from Kansas describes. Right across the county line we would frequently find a considerable difference in values. This year we called the assessors into conference before they started to work, and there explicit instructions were given to assess everything at a fair cash value. That settled the whole argument. We don't have to agree on any basis. As a result we have a check which I don't suppose exists in any other state. You remember when we came into the union we were given \$5,000,000 by the federal government in lieu of the east side of the school land on the west side of the state. So we had that \$5,000,000 to loan, and we do in fact lend something in nearly every township of the state. Before a man can secure a loan he has to get two disinterested neighbors to make affidavit as to the value of his farm, and he must himself swear to its value. A record of this valuation is kept in the school land office and the government office. This year when we called the assessors in to check up their taxes, they all, of course, began to kick about excessive taxes and excessive valuations. We proved conclusively that the majority of them had assessed those same lands at from ten to sixty-three per cent. of the amounts which these neighbors had sworn they were worth. So they

went home and they are mighty well satisfied. We find that the county assessors' law is a great improvement over the old law, but next year we are going to find that there are some politicians among those elected, and we know that when politicians take hold of tax matters they are usually handled in a very poor manner. (Laughter.)

MR. J. H. McCONLOGUE (Iowa): The Iowa tax commission is very much interested in the formation of a permanent tax commission, and also in the county assessor. I would like to ask the gentleman from Oklahoma who has just spoken, if their county assessor has the power and the authority to appoint all the local assessors. Also I would like to ask if the permanent tax commission has power, independent of the county assessor, to appoint assessors to re-assess property if they deem it necessary.

MR. ORR: Mr. Chairman, in answer to that I will say that the county assessor is held responsible for the action of his deputies. He appoints the deputies. Some of them ran for office. They intended to and did appoint a great many deputies. The men that intended to serve only one term appointed two or three deputies and did a great deal of the work themselves. We have no tax commission. We have a state board of equalization. If any county sends up a valuation with which the board is not satisfied, they can send it back and order a re-assessment. However, the supreme court has recently held that the state board of equalization has a right to increase the total aggregate value, or the aggregate of any class. We divide property into fifty-six different classes. We have horses, cows, mules, hogs and nearly every other class imaginable, and the state board has a right to make that many more classes if desirable, and when I go home I shall recommend at least one more class, and that is the separation of the improvements from the lands. This is done at present in Oklahoma City, but there are other places where the distinction is not made. But I find that separate assessment is a great advantage, and I shall recommend it when we return to Oklahoma.

MR. C. P. LINK (Colorado): In reply to the gentleman from Oklahoma about the power of adjusting and equalizing, I

would state that in Colorado we have elective county assessors who place local values and appoint all their deputies. Their work is gone over by the board of county commissioners for each county. Now under our new state tax commission law, the commission is put above both of those bodies, so we cannot only equalize and adjust taxes in grades in one county or in all the counties of the state, but we can go into a taxing district and take up individual taxpayers and particular classes, or all classes. Our powers are quite plenary in that respect. We think having a central body with complete power to change and adjust local values of all kinds and in all respects is about the best system there is.

THE CHAIRMAN: How about the election or appointment of assessors, of the county assessors, Mr. Link?

MR. LINK: The county assessors are elected and they appoint their deputies.

THE CHAIRMAN: Which would you prefer?

MR. LINK: We would rather have the appointment of the county assessor, but of course you run against home rule sentiment, and that is pretty hard to overcome. I think it would be the best plan to have them appointed by the state board. No question about that. I might say further that Colorado still has an ex officio state board of equalization, about the only part of the old system left. A constitutional amendment to be voted on this fall, which we think will be adopted, places the final equalization power also in the state tax commission.

MR. J. H. McCONLOGUE (Iowa): Are the people satisfied with the county assessor, and having him appoint deputies?

MR. LINK: Quite well satisfied.

MR. SAMUEL T. HOWE (Kansas): Mr. Chairman, just a word more on the same line. The Kansas commission, acting as a state board of equalization, has the power—plenary power, as much power as they ought to have—to equalize among classes of property, and among tax districts, and among cities, and among townships, and among counties; and the values fixed by the state board of equalization are to be taken by the local people as a basis of all their levies, for state, county, city, township and school district purposes. Now we exer-

cised that power this year to a considerable degree. We found the same old tendency to reduce values in order to escape state taxes. We raised, I think, thirty-five counties anywhere from three to twenty-five per cent., and we got through without very much protest. We had one or two re-hearings, but we raised a good deal.

MR. A. S. DUDLEY (Wisconsin): Just one practical suggestion that has not been made in this connection. I think in many of our western states it will be found that the power given to the board consists in equalizing among classes of property, but with the limitation that the aggregate, at the conclusion of the equalization, shall not be more than a small percentage above or below the total as returned from the counties. One gentleman who has recently spoken said that some \$290,000,000 had been added. That, gentleman, is a very large addition to the roll, or a very large percentage.

MR. ORR: Fifty per cent.

MR. DUDLEY: Now the state legislature in most of these states has fixed a limit upon the rates. Take the state of South Dakota, with a limit for school purposes of twenty-five mills although in certain districts I think it may be as high as thirty mills. That rate was fixed not with reference to the statute which says that property should be assessed at full value, but with reference to the prevailing conditions, namely, an assessment at about twenty-five per cent. of full value. The custom is considered rather than the letter of the law. Now then suppose the state board of equalization of South Dakota had the power and exercised the power of raising the property valuations from twenty-five per cent. to one hundred per cent., where would your school taxes be? What would be the purpose and end of that limitation, which was supposed to be a twenty-five mills application to a twenty-five per cent. ratio?

SUGGESTIONS FOR A PRACTICAL PLAN OF FOREST TAXATION

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INTRODUCTORY

Four years ago I had the pleasure of addressing this Association on the subject of forest taxation. At that time I undertook to describe the existing situation and to show why the taxation of forest lands presents a special problem. I showed that the taxation of forest lands under the general property tax tends to produce serious evil results and I stated the principles on which a correct plan of forest taxation should be based, with some tentative suggestions for the solution of certain practical problems which would arise. Forest taxation was at that time just beginning to receive serious consideration. Since then the subject has attracted more and more the attention of those who are interested in the development of forestry and in tax reform. The unsatisfactory character of our present method of taxation is being more clearly recognized, and there is an increasing demand for reform.

At the time I spoke to you four years ago I had not yet gone far enough in my study of this subject to be able to offer more than a few tentative suggestions as to the details of a correct plan of forest taxation. Since then I have myself devoted much time to the investigation of this subject in America and abroad. I now feel ready to present for your consideration the outline of a more complete and detailed practical plan of forest taxation.

This plan must still be expressed in somewhat general terms. Forest taxation is a matter of state law. The admin-

istrative details of any practical plan must be worked out in the light of local conditions in each state. No uniform plan can possibly fit conditions in all states. I do not feel myself qualified to draw up a bill for enactment in any state. My purpose is to formulate the principles upon which sound forest taxation must be based, and to offer some suggestions as to how these principles may be put into actual practice. In the solution of practical problems we are not limited to any one method, and I shall offer several alternative suggestions for meeting various conditions.

My suggestions are still offered modestly and somewhat tentatively. I make no claim to being yet in a position to say the final word on this subject. My main purpose, from the selfish point of view, is to offer a plan upon which I may obtain the benefit of your criticisms, and the more severe they are the better I shall be rewarded. I hope in this way to be able later to put into final form for publication a plan which shall embrace the judgment of those best qualified to speak on the subject.

THE PROBLEM OF FOREST TAXATION

Why is the taxation of forest lands a special problem? Why should this particular class of property deserve special consideration? Why should we not leave things as they are and await the progress of reform of our tax system as a whole? All of these questions I have discussed and answered on previous occasions. Without attempting to repeat what I have said elsewhere, allow me to state briefly what I consider the real problem of forest taxation. Forest lands are taxed in the United States under the general property tax without important exception. The general property tax by its very nature works injustice when applied to wealth which does not yield a regular annual income. In no other case is this injustice so extreme as in the case of lands devoted to the growing of timber. Here the owner is compelled to pay an annual tax on the total value of land and trees for a long pe-

riod of years during which he receives no income. His annual tax payments must be charged up with accumulated interest to the time when he may obtain an income from the cutting of timber. Strictly enforced the general property tax must inevitably impose a burden upon forest lands which in certain cases might easily amount to one-half or even three-fourths of the total income when finally received.

It is admitted that the actual excessive taxation of forest lands has been the exception rather than the rule. This result, however, has been due simply to the leniency with which the law has been enforced. Forest lands have generally been assessed far below their true value. That our methods of taxing forest lands have not already produced disastrous results is due to this leniency of administration as well as to the fact that up to this time little interest has been taken in the matter of timber cultivation. The time is coming, however, when we can no longer go on cutting virgin timber, but will have to begin to think of maintaining and reproducing our forest lands. When this point is reached, our present method of taxation will present an insuperable obstacle. We cannot rely upon continued under-assessment. The mere uncertainty as to what the tax burden will be, with the excellent chance that it may eat up a good share of the income, will be enough to deter the wise business man from investment in forest growing. As I have said on other occasions, I feel convinced that the general practice of forestry by private individuals or corporations as a business proposition can never come in this country so long as our present method of taxation continues.

As I see it, the fact that taxation puts a well-nigh insuperable obstacle in the way of forest growing is what makes forest taxation a serious special problem. The reform needed is a method of taxing growing timber which will not interfere with reproduction on cut-over lands or be an obstacle in the way of sound forest management. I do not wish to minimize the importance of also devising the best possible method of taxing mature merchantable timber. This I regard, however, as a somewhat distinct problem and a less serious one.

The handling of mature forests is governed by other economic considerations of so much greater weight, that taxation, though doubtless important, will rarely be the deciding factor in determining how the forest is to be managed. The plan of taxation which I propose could, I think, be adapted to timber already mature, by making certain modifications. In this paper, however, I have limited myself in the main to the other problem, that of the growing forest.

A sound tax system must not only be just to the forest owner. It must also consider the interests of the treasuries of our states, counties, and towns and the welfare of the general public. Our problem then is to devise a system of forest taxation which shall secure reasonable taxes to the forest owner, protect the public revenue, and not be an obstacle to the best use of the forests from the public standpoint.

In seeking to find such a system I shall assume that the forest owner is to be made to bear his just burden of taxation in proportion to his ability to pay as compared with other taxpayers. We frequently hear it proposed to undertake the encouragement of forestry by granting special favors in the way of taxation. I have no sympathy with any such proposal. There is no sound reason why forest owners should receive special favors. There is little reason to believe that the granting of any favors which the legislatures would consider would be able to accomplish the desired result. I am also convinced that the granting of special favors is entirely unnecessary. All that can be accomplished by taxation can be accomplished by a system which gives simple justice to all parties concerned. In what follows, then, I am assuming that forest lands are to bear their just burden of taxation on equal terms with other kinds of wealth.

THE BASIS OF A SOUND SYSTEM OF FOREST TAXATION

I am convinced that the basis of a sound system of forest taxation must be a tax levied upon the yield of timber at the time of cutting. The tax on yield operates justly upon all kinds of wealth, regardless of whether the income is yielded

annually, or at long and remote intervals. The tax on yield is simple theoretically and easily administered. It enables the investor to count upon his future tax burden with reasonable certainty, and guarantees him against arbitrary or excessive taxation. It is paid at the time when the income is received and is, therefore, not a burden during the years while the forest is maturing. It is paid only in case the income is actually received, and thus does not compel the owner to pay taxes for many years on an income which may finally never be received, as is the case under the general property tax. In brief, the tax on yield avoids all of the difficulties of the general property tax in the case of forest lands, both from the point of view of the forest owners and from that of the general public. How it may be administered so as to work no evil results upon the public revenue I shall undertake to show later.

The simple tax on the yield in lieu of all other taxes on either land or trees is the ideal tax for forest lands. It is admitted, however, that this simple plan may not in all cases be practicable. In such cases it may be necessary to accept a compromise plan, consisting of a combination of an annual tax upon the land alone, with a yield tax upon the timber when cut. This is the plan of reform which has received most favor thus far in the United States. This compromise plan has many serious defects which I have undertaken to point out on other occasions, and which I shall not have time to go into here. Some practical considerations in connection with the application of this plan I shall present later on. I offer this second plan as an alternative distinctly inferior to the simple tax on the yield, yet just as distinctly superior to our present method of taxation, and the plan which may have to be accepted as a compromise, where, for one reason or another, the simple tax on yield is impracticable.

OUTLINE OF A PRACTICAL PLAN OF FOREST TAXATION

May I now attempt to present the outline of a practical plan of forest taxation based upon scientific principles and

fitted to meet conditions as we find them in the United States? Let us assume first that we are putting into operation the simple tax on the yield of timber when cut.

I. *Lands Subject to the Yield Tax.* The lands open to the yield tax should be those on which forests are growing. The law should state clearly what is understood to be a growing forest, as by specifying the proper species of trees, the minimum number of trees to the acre, etc. The placing of such lands under the new tax should be optional with the owner and be made only on his application. On the owner's application, the state forester, or other authorized state officer, should examine the lands. If he finds they meet the legal standard, they should be placed for purposes of taxation under a special classification. Lands once accepted should remain thus separately classified so long as the forest is properly maintained or until the owner desires to withdraw them. The state forester, or other officer, should be authorized and directed to make occasional examinations of lands so classified in order to make sure that the forest is being maintained up to the legal standard.

It will be necessary also to limit the application of the yield tax system so as to avoid the possibility of its use to evade taxes on lands being held for purely speculative purposes. This may be done in either of two ways. First, we may restrict the lands subject to the new tax system to those whose value does not exceed a certain specified limit, say ten, fifteen, or twenty dollars per acre, according to local conditions. This is the method employed in most of the exemption laws now in force in about a dozen of our states. Instead of imposing an absolute limit, it would be possible to provide that the system be applied to all lands, regardless of value; that up to a specified value the land should be exempted from taxation, and that any excess of value over the specified limit should be taxed under the general property tax like other wealth. Of course no taxes would be levied upon the trees excepting the yield tax at the time of cutting. There is some danger, however, in this method, since it would leave the door open to local assessors to place excessive valuations upon tim-

ber lands, and thus practically defeat the object of the law. There are cases of this very thing having been done under our present exemption laws, and so long as under-assessment of lands is the general rule excessive taxation of particular pieces is possible, and the owner is practically precluded from obtaining relief. On the whole, I am inclined to the opinion that the best results would ordinarily be obtained by a simple limitation to lands not exceeding a certain value. In any given state it probably would not be difficult to fix this limit at such a point that lands being held for speculative reasons would be excluded, while at the same time admitting all true forest lands to the benefit of the law.

Another method of preventing the use of such a tax law for evasion of taxation on land held for speculative purposes has been worked out in New York. Certain laws providing for exemption of forest lands, passed during the present year, provide that the law shall not apply to lands within 20 miles of a first-class city, 10 miles of a second-class city, 5 miles of a third-class city, or one mile of a village. This is obviously a rather ingenious device for accomplishing the same thing as by a limitation of the value of the land. On the whole, this method seems to me open to rather serious objections. Limiting the distance from cities of the several classes is a decidedly arbitrary arrangement. It is entirely possible that some lands, although lying outside the specified limits might still have a highly speculative value, and be entirely too valuable for forest growing, whereas true forest land might be found within the limits. Moreover, the location and limits of cities are constantly changing, whereas it is essential for a proper working of our plan of forest taxation that it be allowed to continue without interruption for a long time. After the lapse of a number of years many lands originally falling outside the limits would find themselves nearer to some city than contemplated by the law, yet it would hardly be possible to deprive these lands of the privilege of the law for this reason. Great confusion would be almost certain to result. However, the choice between particular methods may safely be left to those familiar with local conditions.

It is frequently proposed to limit the application of special forest tax systems to tracts not exceeding a specified area in the hands of a single owner. There seems to be no good reason for such a restriction in the plan which I am proposing. If the system is good, the large forest areas are the very ones that should be encouraged to come under its provisions; little good will come from any system limited to small scattered tracts of forest. If the plan is not good, its defects should be corrected directly, not merely limited in application. Moreover, any such restriction as this can be easily evaded, if its evasion is really worth while.

It is believed by many persons that any special plan of forest taxation ought to involve a legal contract between the owner and the State, by which the owner binds himself to manage the forest under the direction of the State forester, to cut only with his permission, etc. Such an arrangement has certain advantages. It would offer an additional safeguard against abuse of the new system by speculative landholders. It would tend perhaps to a more intelligent handling of private forests. It would enable the State forester to advertise the new system and assist in its intelligent adoption. On the other hand, there is great danger that the requirement of such a contract would frighten off many owners. Owners of large tracts in particular might well hesitate to bind themselves to manage their holdings according to the personal dictation of any outsider. If large areas came under the system the responsibility upon the State forester would become severe and the opportunity for improper relations between that official and the owners of forest lands would be obvious. My own opinion is that the proposed tax system will stand a better chance of success if it is not tied down to a contract between the owner and the State, and that the restrictions which I propose will be sufficient safeguards against abuse.

It is also often proposed that the special forest tax be open only to true forest lands, or to lands which are not suitable for agriculture or other purposes. Insistence upon this restriction would make the administration of the law very dif-

ficult, whereas the safeguards proposed would seem to render such a restriction unnecessary.

II. *The Tax.* Forest lands thus classified should be exempt from all taxation both on land and trees (unless the value of the land above a certain specified limit were made subject to the general property tax, as in one of the alternative propositions already suggested). Whenever any timber or other forest product is cut from the land a tax should be assessed at a specified rate upon the value of the timber cut. As to the rate of this yield tax, I am inclined to think that 15 per cent. is about right. The purpose is to impose a tax upon the yield of forest lands which shall be practically equivalent to the burden of taxation borne by other kinds of wealth under the general property tax. So far as can be learned, property in general throughout the United States appears to pay a tax of about one per cent., or possibly a little less. If we estimate interest to be at 5 per cent. a one per cent. property tax is equivalent to a 20 per cent income or yield tax. With an interest rate of 6 per cent. the corresponding yield tax would be about 17 per cent. The fair rate of interest to be used is probably somewhere between 5 per cent. and 6 per cent., and since it is, on the whole, likely that the burden of the general property tax is not quite so high as 1 per cent., I conclude that a 15 per cent. yield tax gives as near an approximation to justice as we are able to obtain. I think it is entirely safe to say that the tax rate should certainly be somewhere between 10 per cent. and 20 per cent. Forest lands when properly classified should be subject to no other tax whatever, except in the case of mature timber as I shall describe later.

III. *Gradual Increase of the Rate During the Transition Period.* It would, of course, not be equitable to collect the yield tax at the full rate immediately after the introduction of the new system. Timber which is about ready to cut at the time that it comes under the new system has presumably been paying its full share of taxation under the general property tax during the time that it has been growing up. The yield tax is supposed to be in lieu of all other taxes during

the period of growth. It would, therefore, be entirely unjust to collect the full yield tax on timber which is cut within a few years after the introduction of the new system, and which has, therefore, enjoyed exemption from the property tax for only a short time. In the interest of justice, the yield tax should be small on timber cut soon after the introduction of the new system, and should gradually increase from year to year until it finally reaches the normal rate fixed in the law.

This would be a perfectly simple matter. I would suggest that some such arrangement as the following be included in the law:

Timber cut 1 year after classification.....tax=1% of yield.
Timber cut 2 years after classification.....tax=2% of yield.
Timber cut 3 years after classification.....tax=3% of yield.
Timber cut 15 years and so on till after classification or
later.....tax=15% of yield.

These figures are of course somewhat arbitrary. The rate of the yield tax might be increased either faster or slower, to any desired degree. It should be remembered, however, that too rapid an increase in the rate might tend to hasten cutting immediately after the new system had gone into force. A transition period of fifteen years would appear to be a fair one, erring, if at all, on the side of liberality to the owner.

IV. *Mature Timber.* Another practical problem which must be met by the law is the case of mature timber, which for one reason or another is being held without cutting. Such timber may be held for cutting at a later date, or it may be the intention of the owner not to cut at all, but to hold the forest indefinitely as a park, or for hunting or other pleasure purposes. In such cases, certainly in the latter case, it is not fair that forests should go on indefinitely without paying any taxes whatever. Where forests have reached maturity and are simply being held for cutting at a future time at the convenience of the owner, there is no reason why the owner should not now begin to pay an annual tax. Likewise the man who chooses to hold indefinitely forest lands for the pleasure he obtains from them, with no idea of cutting, should certainly not escape his fair share of taxation on such

property. To meet this problem the following plan is suggested.

Let the law specify tables of ages at which each forest type shall be deemed to be mature. This will be understood to be the prevailing or average age of the timber. Of course such a table would necessarily be somewhat arbitrary, but for the purpose in view this is not a serious objection. The ages should be fixed high enough so as to avoid any injustice and so that there could be no question whatever that timber having reached the age in question was mature and ready for cutting. The law should err on the side of fixing the ages too high rather than too low. As soon as any timber which had been classified and subject to the new tax system had reached the age limit specified in the law, the value of the land and timber should then be assessed. This valuation should be repeated at intervals of, say, five years until the timber is cut. The forest should then be taxed annually at the rate of 1 per cent. of the assessed value, this annual tax to be continued as long as the timber remains uncut. If timber is cut later, the regular yield tax should be assessed at the normal rate. From the amount of the yield tax thus assessed should be deducted all of the previous annual payments with interest to date, the balance being the amount of taxes due from the owner. If the previous annual payments with interest should be equal to, or greater than the regular tax on the yield, then no yield tax would be due. If this scheme seems too liberal to the owner, the allowance of interest on the annual payments might be omitted. The practical difference would not be very great.

This arrangement, it seems to me, would be entirely fair to all parties concerned. The lumber company that wished to delay its cutting a few years after the timber had reached maturity would not be required to pay any heavier amount of taxes, since the annual tax payments would be deducted with interest from the yield tax when due. If desired, the company could borrow each year a sum sufficient to pay the annual tax, for which loan the forest itself would provide sufficient security. At the time of cutting, the deduction from the yield tax would be sufficient to repay these loans with in-

terest. On the other hand, the wealthy owner of the pleasure park who did not cut his timber at all would simply be paying a reasonable and definitely determined annual tax on his wealth so used.

It would be entirely proper so to word the law that lands covered with timber already above the specified age limit could come under the new system and begin at once paying the regular annual tax. The advantage would be the assurance of a definite tax rate in place of the arbitrary and uncertain burden of the general property tax. However, since the annual tax would in most cases be somewhat heavier than the general property tax, it is not likely that many owners of mature timber would accept this opportunity.

V. *Cutting Immature Timber.* Provision must be made in the law for cases where the owner of forest lands which have been classified and admitted to the new system wishes to withdraw his lands from forestry and devote them to other purposes before the timber has reached a proper cutting age. It is obvious that in this case the very small tax on the cut of comparatively valueless immature timber would by no means be a sufficient recompense for the years of exemption preceding. On the other hand, it does not seem to me either just or expedient to insist that the owner must invariably continue his forest plan without the privilege of changing his mind, or to impose unreasonably heavy penalties for such a change of plan. The owner should be free at any time to withdraw his land upon payment of a sum not much greater than the amount of all the taxes that would have been paid upon the property during the period of exemption, if it had remained subject to the general property tax. This end might be accomplished by either of the two following methods:

(1) Have an assessment made of the market value of the land and timber. Take 1 per cent. of this value and multiply it by the number of years that have elapsed since the land was classified and exempted from taxation. Let this amount be collected from the owner, after which he shall be free to dispose of land and timber as he sees fit. This method would, I think, result in reasonable fairness to all concerned. The

rate of 1 per cent. is probably slightly higher than the average burden of the general property tax, and the imposition of this rate upon the present value of the property makes the burden somewhat heavier still, since the property has presumably been increasing somewhat in value during the period of exemption. For the sake of simplicity, I purposely avoid the calculation of interest on the annual tax payments, believing that the imposition of the tax on the present value and at a fairly high rate is sufficient to balance the omission of interest. If thought advisable it would, however, be a simple matter to introduce the interest into the calculation.

(2) Let all forests which have been classified and accepted under the system be assessed each year in the regular way under the general property tax. Let this assessment be made merely as a matter of record, but no taxes collected upon it. If at any time the owner should wish to withdraw his lands from forestry and devote them to other purposes, then calculate the amount of taxes which would have been paid under the general property tax on the assessments made and at the rates which prevailed during the period of exemption. The total amount of these taxes with interest to date should then be collected from the owner. This plan has the advantage of greater exactness than the preceding one, but it is more complicated and would be much less easily administered.

VI. *Administration.* The administration of the general property tax today is in the main in the hands of local officers, representing either the towns or the counties. The question naturally arises in connection with the scheme of forest taxation outlined as to what grade of government should have charge of the administration. It seems to me that for the effective administration of such a plan of taxation the chief responsibility should be in the hands of state officials, presumably the state forester and the state tax commissioner. Their particular functions and the nature of their co-operation should be carefully specified in the law. Thus the state forester should have charge of the examination and classification of lands at the outset, and with him would rest the responsibility for seeing that the forests were maintained up to

the legal standard. I am inclined to think, also, that the state forester would be the officer best fitted to supervise the assessments of timber cut. The presentation of the bills and the collection of the tax should be in the hands of the state tax commissioner.

It does not follow that the aid of local assessors should be dispensed with entirely. In the case of small wood lots the local assessors would probably be in the best position to keep track of the amount of timber cut during the year by the farmers from their own wood lots. Local assessors might be required to make such reports each year to the state tax commissioner or the state forester. In the case of large cuttings by logging companies, saw mills, etc., the administration should certainly be in the hands of state officials.

In all cases owners should be required by law to make reports to the state forester, stating the amount of timber cut. Obviously the state officials should not accept such reports without investigation. There should be a force of assessors under the employment of the state forester or the state tax commissioner continuously engaged in examining logging or saw mill operations and checking up reports from owners. The state forester and the state tax commissioner should also have free access to the books and other records of the owners of forest lands.

In determining the value of the timber cut two methods are possible: first, the exact value might be determined for each particular cutting, owners being required to report the value as well as the amount of timber cut; or, second, the state forester might be required to draw up a table of approximate values of the different kinds of forest products for the different sections of the state, basing his figures for example upon the average prices of the previous five years, and revising his figures every five years. If this were done, the assessment of the yield of any particular piece of land would involve simply the determination of the amount of the product, whereas the determination of its value would be a purely clerical operation, to be performed in the office of the state forester or state tax commissioner. This in a general

way is the method employed in European countries in the administration of their forest taxes. It might be practicable in some of our older states. Its general application, however, is probably not possible at the present time.

It is not my purpose here to enter into a discussion of minute details of administration. Such matters will have to be worked out by each state to fit local conditions. I feel quite confident that the plan of taxation I am proposing will involve no administrative problems not capable of reasonably satisfactory solution.

VII. *The Distribution of the Proceeds of the Yield Tax.* The yield tax should be collected by the state tax commissioner and should ordinarily be distributed to the towns and counties according to some equitable rule. This arrangement is, I think, necessary for the sake of effective administration. It is also necessary in order to secure reasonable regularity in the incomes of the towns and counties. It is perfectly obvious that the introduction of the yield tax and the abandonment of all annual taxes on land and trees would result in great disturbance of local revenue if each locality collected only the tax on the yield of timber cut within its own borders, provided that lands subject to the tax formed any great part of the property of the town. In fact, to levy the tax in this manner would probably put the whole yield tax out of the question. This difficulty can be easily avoided, however, by the plan of distribution.

There are a number of alternative ways in which this plan might be carried out. First of all it might in some cases be possible to make the forest tax a state tax pure and simple, the entire revenue going into the state treasury for state purposes. The towns and counties should receive compensation either through the state surrendering to them some other source of revenue or through the state undertaking to perform some public function, the expense of which was heretofore borne by the towns and counties. Such arrangements as this have been quite frequent in European countries where tax reforms were being introduced involving re-adjustment of state and local revenues. Where this arrangement can be

made the whole problem is, of course, solved at once. This solution, however, would not be practicable in many of our states, and in such cases some arrangement must be worked out for the equitable distribution of the proceeds of the forest tax among the towns and counties from which it comes. There are a good many different ways in which this might be accomplished, of which I shall suggest four.

(1) Let the distribution be made by means of exact accounts kept between the state and the several towns and counties. Let the tax be administered by the state. Let a rough estimate be made of the probable average annual yield of the forests in each town. Then let the state pay the town's share of the tax on this yield to each town annually. Whenever any timber is cut in any particular town, the town's share of the tax would be credited to it, whereas it would be debited with all the previous payments from the state treasury, with or without accumulated interest to date. The balance would be carried forward to the next time of accounting. A large balance on either side would be avoided by altering the amount of the annual payments from time to time as experience showed they were too high or too low. Such a plan would not require an exact calculation of expectation value, since no permanent injustice could result from errors in the calculation of the annual payments from the state to the towns. This plan makes the state the administrator of the forest tax and the banker for the towns, thus guaranteeing to each town a fairly regular income. The state itself has a large enough territory so that the tax would produce a fairly regular income for the whole state. This method is one that I proposed before this Association four years ago. It has the advantage of producing exact accounting between the state and the local bodies, and giving to each of the latter exactly the amount of tax which the forests within its own borders have produced.

Other plans may be devised which, while not producing such perfect exactness, will give practical justice, and have the advantage of greater simplicity; among them the following:

(2) Let the payments from the state to each town be based upon the average receipts from the tax upon timber cut in that town during a previous period, say five years. For the first five years the payments would have to be determined in some other way, either by an estimate as already suggested, or by making them equal to the average of the town's revenue from taxes on timberland under the general property tax during the previous five years, if that could be ascertained. After the new system had been in operation for five years, the payments from the state to the town would begin to be based upon the previous five years' receipts from the tax on timber cut, a revision of the amount of the payment being made on every successive fifth year. The period need not necessarily, of course, be five years. This method has the advantage of great simplicity, and would produce substantial justice between the state and the towns. Obviously this plan would work best in a state where the timberland is generally in the form of wood lots. It could hardly be applied to a condition of large timber tracts subject to extensive logging operations. This plan obviously does not bring about so perfect a distribution as the preceding. Under it the state would have to gamble somewhat on the product of the yield tax. That is, if the yield from forestry should be declining in a given state, the payments to the several towns based on the previous five years' average would tend to be somewhat in excess of the tax being currently collected by the state, and the state would therefore lose. On the other hand, the state would gain wherever the yield of forest products was increasing. If the new scheme of taxation tends to produce the desired results, the chances are that the state would be the gainer rather than the loser. At any rate the discrepancy between the amount obtained by the state and the amount paid out to the towns and counties would generally be quite small. This method also falls short of producing an absolutely regular revenue for the towns and counties, since the averages for the several five-year periods would vary more or less. Under most conditions, however, the result would probably be quite satisfactory. This method of distribution has the further advantage of offering an induce-

ment to the assessors of each town to report fully the amount of timber cut, since the town's revenue depends directly upon the amount of the tax on the forests within its borders.

(3) A third basis of distribution which has many advantages is the following: let the total amount of taxes collected by the state be distributed among the towns in proportion to their respective areas of forest lands classified and subject to the yield tax system. It might be possible to introduce a refinement of this method by weighting the lands according to quality. This, however, would introduce serious complications, and would seem to be scarcely worth while. Under this plan the several towns would receive an almost perfectly regular income, varying only with the total amount of the yield tax for the whole state, and with the total area of forest lands subject to the tax in the state and in the particular town in question. It would furthermore offer an inducement to each town to maintain its forest lands subject to the yield tax. The towns would probably come to feel that the development of forestry within their borders was a thing to be desired, and the plan would avoid that feeling of hostility and the occasional attempt to get even with the owner by extra assessment on some other kind of wealth, which frequently arise under an exemption law. This method also has the advantage of extreme simplicity, and on the whole, seems to me to be perhaps the best and most practical plan of distribution.

(4) The state might guarantee to each town a future revenue out of the yield of the forest tax equal to the average revenue which the town had received during the past five years from the taxation of forest lands under the general property tax. As a plan for general adoption, this method presents a number of serious objections. In the first place, the amount of revenue from forest lands under the general property tax is seldom known, since it is not the custom of the assessors to separate forest lands from other lands in the hands of the same owners in making assessments. Again, this arrangement would be unjust as between towns, rewarding those towns which in the past had been imposing heavy taxes, and correspondingly penalizing those whose taxes in the past

had been light. The method would also offer no inducement to the towns to maintain their forest lands, but would rather operate in exactly the opposite way. Since a certain revenue is guaranteed them in any event, there would be more or less inducement to encourage the clearing off of forest lands in order to put them to some other use in which they could be directly taxed by the town itself. To meet this objection by requiring that each town must maintain at least the area of forest lands which it contained at the time the law was passed is hardly practicable. In the same way a town which added to its forest area no matter how large a territory, would have nothing to show for it in the way of additional revenue from the forest tax. Such objections as these would probably make this plan impracticable for general adaption. Under certain circumstances, however, it may be the simplest and most satisfactory solution of the problem.

There is still another plan possible which might be used by the towns and counties directly if this were thought desirable, and which would avoid entirely the distribution of the proceeds of the tax among the towns by the state. Let a reasonable annual tax, measured by some simple rule, be collected from the owners of timberlands. When the timber is cut; collect the tax on the yield, and allow a deduction for the previous annual payments, with interest to date. If, through a mistake, the annual payments had been excessive, so that, with interest, they exceeded the tax on the yield when finally cut, a rebate would be due the owner. This plan would be necessary only for forests producing an intermittent or irregular yield. Where a sustained annual yield was produced, the tax would be simply collected each year, at a certain percentage of the yield. This plan is theoretically simple, and would produce entire justice. The necessity of calculating interest is, however, a drawback, and the plan is, I think, distinctly inferior to the other arrangements which have been suggested. It would hardly deserve consideration except where it might be thought desirable to have the collection of the tax directly in the hands of the local officers.

VIII. *The Combination of Property Tax on Land and Yield Tax on Timber Cut.* Thus far in the discussion of a practical plan of forest taxation we have assumed that the system would be the simple tax on the yield cut, in lieu of all other taxes on land or trees, except in certain special cases. As I have indicated this is the ideal method, which I believe should be aimed at wherever possible. However, as I have also suggested, it may be necessary for reasons of expediency to accept a compromise plan involving a combination of an annual property tax on the land with a yield tax on the timber when cut. This plan is distinctly inferior to that of the simple tax on yield, since it perpetuates many of the evils of our present system. The principal reasons which lead people to prefer this compromise plan appear to me to be as follows:

(1) In the first place there is the fear that unless some tax is placed upon the land, the system will be used to favor land speculation. I have already indicated how this danger may be avoided under the simple yield tax.

(2) It is felt that retaining the tax on the bare land will tend to prevent the derangement of local revenue which would result from the yield tax pure and simple. Such danger would surely exist if each town were dependent from year to year upon the tax on the timber cut within its own borders. I have indicated methods of securing regular local revenue which, I believe, are both just and practicable. Even with the proposed combination plan local revenues would be more or less irregular, since that part of the tax which came from the timber cut would be just as irregular as under the yield tax alone. If it were proposed to have this part of the tax distributed according to some arrangement so as to produce regularity, the obvious answer is that the whole tax might be thus distributed just as well as a part of it.

(3) There is a feeling that some land owners would in some way manage to escape taxation under the simple yield tax. This is a danger which I believe would not exist in a carefully worked out plan. In particular, the limitation of the plan to lands devoted in good faith to forest growing and limited to a low value per acre, together with a payment equal to back

taxes in case the trees are cleared off before reaching maturity, would seem to pretty thoroughly close the door against tax evasion.

(4) The combination plan could be administered by local officials more effectively than could the simple yield tax. To those who dislike to see the power and importance of town and county tax officials diminished by handing over any of their functions to the state, this is held to be an advantage of the combination plan.

(5) Finally many people have a somewhat instinctive, and perhaps unreasoning, doubt of the practicability of the simple yield tax. Any reform is sure to meet a certain dead weight of conservatism which trembles at the thought of any radical change. Many persons who see clearly enough the evils of the present system and recognize the need of reform are still timid about taking the whole step, and have committed themselves to the compromise plan.

It may, therefore, be the course of wisdom in certain states to seek to obtain only the compromise plan rather than to aim at the more perfect plan of the simple yield tax.

If the combination plan is to be advocated may I make the following practical suggestions which relate to this plan especially? The scheme contemplates an assessment of the land separate from the standing timber, the land to be assessed at its value as bare land, no account whatever being taken of the value of the trees. The trees, on the other hand, are to be taxed only when cut, by means of a yield tax. It is frequently proposed that the law restrict the assessors by fixing a maximum value which may not be exceeded. There is something to be said in favor of this, although the expedient is decidedly arbitrary, and would not apply in the same way to different parts of the state. I am myself inclined to think that the best results would be obtained by leaving the assessment of all forest lands subject to this tax in the hands of state officers, who could operate under general rules over the whole state. If the assessment is to be left in the hands of local assessors, some limitation will probably have to be placed in the law to

prevent unfair and excessive assessment, which would defeat the whole purpose of the law.

If the assessment is in the hands of state officials, assessment every year would hardly be necessary. An assessment of the whole state once every five years would probably be sufficient, leaving in the years between only the task of assessing new lands as they came under the system. It might be possible to make a compromise here by having state officers announce every five years a maximum assessment for each distinct part of the state, leaving local assessors to use their judgment in assessing lands within their own borders, provided they did not exceed the maximum thus fixed.

In order to make this combination plan fair the total tax burden coming from the annual tax on the land and the yield tax on the timber cut should be equivalent to the average burden of the general property tax on other kinds of wealth. We have already concluded that the simple yield tax of about 15 per cent. approximates this result. In the case of the combination land tax and yield tax it seems to me that approximate justice would be reached if the land tax were imposed at half the rate of the general property tax as imposed on other kinds of wealth, together with a yield tax of 8 to 10 per cent. A still better plan would be to have the law itself specify the rate of the land tax. If the assessment of the land tax were in the hands of state officers and the rate were fixed in the law at, say, $\frac{1}{2}$ per cent., we would have what would probably be the best method of administering this kind of a combination system. Some advocates of this scheme even go further and advocate that the law specify exactly the value at which the forest lands shall be assessed, as for example, \$1.00 per acre. Others undertake to have the law specify exactly the amount of tax to be paid on each acre, as for instance, 10 cents per acre. All such propositions are, of course, quite arbitrary, and yet this is after all somewhat of an advantage. To settle which one of the dozens of possible combinations of detail is the best is, of course, entirely out of the question in a general discussion.

As regards practical problems of administration, most of what has been said about the simple yield tax applies equally to the combination of land and yield tax, with the exception that if the land is to be taxed at its full value under the local property tax rate, there would probably be no particular reason for limiting the value of lands to which the system could be applied, as is necessary in the case of the yield tax. The payment to be required when immature timber is cut would also have to be differently calculated.

IX. *A Plan of Reform Limited to Newly Established Forests.* I have purposely restricted my suggested plan to growing forests. Even as thus restricted, the plan may appear too ambitious for immediate adoption in many states. When this is the case, a simple and safe beginning might be made by restricting the yield tax system to forests established after the passage of the law. That is, any one who should undertake to grow trees, by planting or otherwise, upon bare or cut-over lands, should be allowed to have such lands placed under the yield tax system, paying no taxes on land or trees excepting the yield tax on the timber when cut. About a dozen of our states already allow such lands considerable exemption from taxation. These exemption laws have uniformly proved to be failures. If states having such laws would repeal them and substitute a scientific yield tax system in their place, a real beginning would have been made toward sound forest taxation. Such legislation would of necessity go into operation gradually and would cause little disturbance to local revenue. It would offer an opportunity to introduce reformed forest taxation gradually and cautiously, perfecting the system from time to time as experience pointed the way before any serious evil results could be brought about. It is greatly to be hoped that some of our states may see fit to take at least this modest step forward.

FRED R. FAIRCHILD

Yale University, New Haven, Conn.

DISCUSSION—FOREST TAXATION

THE CHAIRMAN: What is the wish of the gentlemen here in regard to closing the meeting?

MR. J. G. ARMSON (Minnesota): Before we adjourn I would like to ask two or three questions relating to the admirable and interesting paper by Professor Fairchild. I have written these questions down, and this morning furnished Professor Fairchild with a copy of them, so that he might have the matter under consideration.

(Mr. Armson then read a list of seven questions, which are repeated in the reply of Professor Fairchild.)

PROF. FRED ROGERS FAIRCHILD (Connecticut): Certain of these questions, as will be easily recognized, are pure forestry questions. I am myself an economist not a forester and don't pretend to speak as such. I might say, however, that I have presented this scheme of mine at a number of forestry meetings, and I have also had the advantage of conference with a number of expert foresters on the plan before I presented it here. My idea in that was not to bring to you a mass of forestry details, in which you are not especially interested, but rather to satisfy myself there was nothing in this plan which would be rendered impossible on account of technical forestry problems. I have been assured by a number of forestry experts that the technical forestry problems involved are capable of satisfactory solution, and having that assurance, I am satisfied in presenting the plan to a body of tax experts. I will do the best I can in reference to these questions.

"1. Does your scheme include the protection of natural seedlings on cut-over lands, and the planting of treeless areas?"

I should answer that question in the affirmative without any qualifications. In fact, I should make it even broader than that. It is not intended to be limited to forest lands which have been established since the adoption of the proposed sys-

tem. I should like to see the system applied to all growing forests, whatever the origin, whether from natural reproduction or planted.

“2. What species of trees would you plant in northern Michigan, Wisconsin and Minnesota?”

I cannot answer that at all. That is purely a technical forestry question. In general, the only thing that seems to me should be insisted upon is the general proposition that this list of species should be so large as to embrace all which will be of value to the people of the state. The list should not be drawn up so as to specify necessarily a few of the very best species, but should rather be drawn up so as to exclude the use of lands under this system for the raising of worthless brush and shrubbery. The list should be broad and inclusive, taking in all kinds of trees of value.

“3. How many trees of different species would you require for each acre?”

The answer to that is exactly the same as to the preceding question.

“4. How would you regulate the time of cutting?”

I should not like to see much regulation of any sort put into this plan. As I told you last night, there are two possible propositions. According to the first, no contract between the forest owner and the state will be required. I recognize the many advantages of the contract plan. With such a plan, of course, the contract would provide for all these technical forestry questions, and we would simply have to inquire what had been stipulated in the contract. But I am very much afraid that any kind of a contract which binds the owner to follow a working plan laid down by an outsider, some state official who has more or less personal discretion, will deter the large land holders, the big companies, from going into this kind of a scheme. They will be afraid of it, and with some reason. I am therefore decidedly of the opinion that the scheme proposed will stand a better show of success if the contract is not incorporated as a necessary part.

I see no reason for very much hampering regulation. We can trust to the self-interest of the owner, who naturally is

interested in getting the best returns and making the best use of his forest land. As to the time of cutting, I think there should be no such regulation at all. We come to the matter of the time of cutting indirectly in two ways. In the first place, we must guard against cutting immature timber. If a man enjoys exemption for fifteen or twenty years, and then changes his mind and decides to clear the whole thing off, a yield tax on that immature and practically worthless timber would be a mere bagatelle, no equivalent for the ten or twelve years' exemption he has enjoyed. We must guard against that. But I do not need to go into that again. In the paper which I read, I have discussed the question of cutting distinctly immature timber. I do not think it will be difficult, by somewhat arbitrary rules, to define just what should be so considered, and to provide, perhaps, for restitution to the state on account of the exemption enjoyed.

With respect to timber not cut at all after it has reached a distinct and undoubted period of maturity, I believe the law will have to specify arbitrary ages for different forest types at which the forest will be presumed to have reached maturity. Those ages should be put so high that there cannot be any question. I see no great harm if they go considerably higher than the average. There might be a considerable error in this direction, so that there will be no question of injustice to the owner. This provision of the law would be applied only when the owner was undoubtedly, for one reason or another, holding his timber beyond the best financial point for cutting. Moreover all of this applies to the exceptional case. Normal forestry presumes and pre-supposes that the timber will be cut at the best financial point of cutting, and to that condition these proposals have no application whatever. They apply only as safe-guards in the exceptional cases, which undoubtedly will occur, of timber being held for an abnormally long time, under which circumstances there should certainly be a fair amount of taxation paid each year. Accordingly, I do not regard the fact that such a law will have to be put in rather arbitrary terms as a very serious handicap. What we want is something simple and effective, that everybody can

understand, that will be administered without too much personal judgment on the part either of the tax official or the taxpayer. The next two questions read:

“5. Would you require the owner to remove the dead and down unmatured timber from time to time to reduce the fire risk?”

“6. Upon whom would you place the duty of fire protection—the owner or the state?”

I do not consider the matter of fire protection as being an integral part of the tax problem at all. They are both problems of forestry, and more or less closely related, but I think a mistake would be made if the two problems were confused. We can adopt a sound taxation system without entering into the problem of fire protection. We can also adopt a sound fire protection system without interfering with the problem of taxation. They are separate problems.

“7. As to your suggestion to tax the land and timber when the latter is cut, may I ask,

“(a) Who would determine maturity?

“(b) Upon what would you base maturity?”

Those questions I have already answered.

“(c) With mixed species of timber requiring a different number of years to mature, how would you determine maturity of timber for purposes of taxation on a given tract of land?”

This presents a somewhat difficult question. It is a question I have presented and discussed with a number of expert foresters. They tell me that the foresters are in the habit of classifying forests according to forest types. A forest type is one consisting of an even-aged stand of a single species, of a mixed age stand of a certain species, or of a stand of a variety of species, as here suggested, of various ages. The law, I think, should specify for each of those various types what age shall be considered the age of maturity, and where the ages are different, either the age of the predominant species, or taking an extreme case where there is not even any predominant species, some sort of an average or arbitrary

rule, which could be followed in the particular case without doing injustice.

MR. DOW DUNNING (Idaho): We had this matter up in the Idaho legislature last winter, and as an encouragement to the growing of trees we exempt nursery stock in the nursery rows, and also growing orchards under four years of age; and it seems to me that in exempting these products of labor we have gone far enough without exempting the land. If in order to encourage the growing of trees, we exempt the land upon which they are growing, we might encourage the holding of such land in our towns and cities for the purpose of getting the benefit of the increased value of the ground caused by the growth of the population itself. This increased value should not belong to the timber grower. It would be very hard to frame any law that would distinguish between natural timber lands, valuable for that purpose and used for that purpose, and lands that might become more valuable on account of being held and unused. Therefore, the legislature of Idaho saw fit to exempt growing trees, but not lands. The land is subject to taxation, but the trees are exempt.

PROFESSOR FAIRCHILD: May I be allowed to reply to the gentleman from Idaho? I presume he is not familiar with the details of the plan which I presented last night, part of which nobody can be familiar with until the proceedings are printed. In the plan I presented those lands which are held for speculative purposes have been excepted. That can be done either by limiting the application of the law to land not exceeding a certain value per acre, which would exclude lands held for speculative purposes, or by legislation such as has been passed in New York, limiting it to areas at least a certain distance from any city. I prefer myself the plan of limitation of values, for reasons of simplicity. A broadly worked out scheme, I believe, can avoid the difficulty which is suggested.

I want also to get into this record a word of protest against exemptions. It has been suggested that the state of Idaho is proposing to exempt growing timber for a certain period of time. I am sorry that the legislature of the state of Idaho

has not apparently looked into the history of all such exemption laws in the United States. We have had such laws in something over a dozen states in this country. All of the New England states today have on their statute books exemption laws. Those laws have failed universally to produce results of importance. The reason for that failure it seems to me is not hard to find. I have gone into this carefully and would be glad to refer anybody to publications in which this matter is explained. Any scheme which proposes to grant special favors to a certain class of property owners, it seems to me, does not deserve our recommendation. You cannot give enough in the way of special favors, you cannot get the legislature to grant enough in the way of special favors, and you ought not, to accomplish anything worth while. Moreover, such efforts are not, I believe, at all necessary. Nothing that I have advocated here yesterday or today partakes to any extent of the nature of a special favor in the way of tax exemption. I do not believe in it. I do not believe it will secure results. I do not believe it is right. What we want is a change of method which will insure a fair burden of taxation, no more but also no less. So what I am proposing is an exemption of all taxes on land and timber, not for the sake of having an exemption, but simply that in lieu of such taxes we may impose another kind of taxes, whose ultimate burden will be exactly equivalent to and imposed upon the products at the time of the harvest.

In what I said last night I did not go at all into the combination of an annual tax on the land value as pure land plus a tax on the timber products at the time of cutting. That plan I think is distinctly inferior to the simple tax on yield, and yet for practical reasons that plan is the one which has received the most favor at the present time in the United States, and which, without any doubt, stands the best chance of adoption if any plan is to be adopted in the near future. The plan does not involve any exemption or special favor in the interest of forest owners, but involves a compromise by which the land is never to be assessed at more than its value as pure land, no account being taken of the value of the stand-

ing timber. Then at the time of cutting, the standing timber itself will pay a yield tax. The yield tax should therefore be lower than if it were the sole tax. I think also, the land tax rate ought to be lower than if there was no yield tax. All of that I discussed in some detail in the paper which you will find finally printed in the proceedings.

MR. SAMUEL LORD (Minnesota): There is a legal phase which I presume you have covered in your paper, and that is the assurance the land owner or tree planter will have that the same law will be in force during the time that his forest is growing.

PROFESSOR FAIRCHILD: There is that legal question, and also the question of constitutionality. With the contract plan, I can see how that can be safeguarded. The state could not pass any law to impair the contract. But without the contract it might not be so clear, if the legislature, in fifteen or twenty years, decided it was about time that land was being taxed, and repealed the law. Unless the landowner can have assurance that the law is to be permanent, at least until the maturity of his trees, he will have, perhaps, little encouragement for the planting of trees under it. If the state could legally bind itself to live up to this law, by something in the nature of a contract, it would certainly be desirable.

However, it seems to me that the matter is not quite so serious as may appear, for the reason that the advantage at first is all on the side of the timber land owner. The party to lose in case of a violation of this quasi contract will usually be the state, and I have therefore found it necessary to put in various stop gaps, so to speak, to prevent the use of the scheme for evading taxes by shrewd forest owners. Take a simple case. Here is a man who plants a forest, and in return gets an exemption on the land and trees as proposed. He is the gainer all this time paying no taxes at all. Ultimately the state will get a practical return when the timber matures and the owner pays a pretty heavy yield tax, 15 or 20 per cent. on the cut. If the state wants to go back on its contract some time before the timber is cut, the state has everything to lose and the owner everything to gain. If any state is foolish enough to

do that, I suppose the owners will hardly go to the courts over it. The state is the only one that stands to lose, and the danger of injury to owners is slight. As a general proposition, it is not the state that will violate the contract. When the timber finally is cut and the taxes paid, then we are again at the starting point. That is the only point at which the state could afford to violate the contract, and at that point no injury can be done. The forest owner may be sorry that he cannot work the scheme over again, but at any rate he has no claim for violation of contract.

SEVENTH SESSION

THURSDAY MORNING, SEPTEMBER 5, 1912

CHAIRMAN, LAWSON PURDY, NEW YORK CITY

PROGRAM

1. WORD OF GREETING.
President Allen Ripley Foote.
2. THE COUNTY TAX ASSESSOR AND TAX COMMISSION SYSTEM.
John E. Brindley, Associate Professor of Political Economy at Iowa State College, Ames, Iowa; and Secretary of the Iowa Special Tax Commission.
3. THE DEFEAT OF THE VIRGINIA TAX REFORM BILL, 1912.
Douglas S. Freeman, Ph. D., Secretary of the Special Tax Commission, Richmond, Va.
(Read by Frank Orr)
4. REPORT ON THE SPECIAL TAX COMMISSION OF UTAH.
C. S. Patterson, Member Board Commissioners on Revenue and Taxation, Salt Lake City, Utah.
5. REPORT ON THE SPECIAL TAX COMMISSION OF KENTUCKY.
W. O. Davis, Versailles, Ky.
6. WORK OF THE NEW JERSEY TAX COMMISSION.
Frank B. Jess, Member of the Commission to Investigate Tax Assessments, Haddon Heights, N. J.
7. WORK OF THE SPECIAL TAX COMMISSION INVESTIGATING CORPORATION TAXATION IN CONNECTICUT.
William H. Corbin, State Tax Commissioner, Hartford, Conn.
8. THE SPECIAL TAX COMMISSION OF DELAWARE.
George W. Sparks, Secretary Delaware Tax Commission, Wilmington, Del.

PRESIDENT'S ADDRESS

THE CHAIRMAN: The conference will come to order. We have with us this morning our president, Mr. Allen Ripley Foote, who will say a word of greeting and of parting, because he leaves us this morning. Mr. Allen Ripley Foote.

PRESIDENT FOOTE: Mr. Chairman, members of the conference, and friends: As you have been informed, I am not in very vigorous physical condition at the present time. I am not in ill health. It is simply the result of an overdraft on my strength. Under the circumstances I find it necessary to ask you to excuse me from further responsibility for the management of the association. In making this statement I want to say that from the inception of the association until now a certain large part of the work has been done by Mr. Purdy, Mr. Pleydell, Mr. Heydecker and Mr. Ryan. They have taken complete charge of the organization of the different conferences, looking after the details. They have taken charge of the publication of your annual volume of proceedings, editing the copy, preparing it for the printer, reading the proof and getting out the volume, so that I have had personally no further trouble with that than you have had yourselves. Their work has been as necessary to the development and success of the association as my own or that of any other person, and it has been given freely and without price. If a money value on the services they have rendered should be fixed, it would amount to fully as much as all the money that has been received and expended for the association. Taking my name from the head of the list only brings their names more clearly in view. Putting the responsibility on them for the management will enable them to do their work better and more effectively than they have done it in the past, and I assure you there will be no jar or change whatever in the management of the association.

In asking to be relieved from the responsibility of the details I only crave permission to continue to work with you in an advisory capacity, and I shall always do so. (Ap-

plause.) It is a great satisfaction to me, and I know it is to each of you, to be able to work with men of intelligence and honesty and strength of purpose, with whom we can co-operate cordially wherever we agree, and with whom we can disagree cordially wherever we must. We conduct our work in a way to give force to the theory that in all contests no contest is ever fully won until a friend has been resurrected from the grave of an enemy. That is the spirit in which all contests should be carried forward.

This association is, in a sense, the child of my mature years. I feel confident that it is now in a state of development that will enable it to go forward and grow in strength and influence and usefulness from year to year. I crave no greater honor than to know that the association will so continue, and I ask each of you to work with those on whom the responsibility may fall in the future as you have worked with me. That will be the best expression of your appreciation of what I have done that you can give. So working, the future of the association is unquestionably one that will lead from one achievement to another.

Of course the problems with which we deal are not those that create public furor. They are not those that can be popular and receive the popular acclaim. But they are those that are as necessary to the future and the general good of the country as any propositions that can be considered in a public way.

I feel complete satisfaction in the work I have done. I feel complete confidence in the future of the association. I am proud of you all as my friends, and in saying adieu to you this morning I say it with the full expectation that a year hence I can greet you feeling much stronger physically than I do today. I thank you, gentlemen. (Applause.)

THE COUNTY ASSESSOR AND TAX COMMISSION SYSTEM.

BY JOHN E. BRINDLEY

The special tax commission appointed to investigate the tax laws of Iowa and of other states and make a report, including the draft of bills to carry out its recommendations, has now practically completed its labors and agreed in a general way, at least, on the character of proposed reforms. The law requires that the report be submitted to Governor B. F. Carroll not later than October 1st, and be printed by the executive council and distributed among the members of the thirty-fifth general assembly not later than December 1st of the current year.

Since the commission was organized in June, 1911, meetings have been held on an average of once a month and almost every important phase of the tax question as related to Iowa conditions has been thoroughly discussed. Tax commission reports have been received from more than twenty states of the union in order to profit as much as possible from the experiences of sister commonwealths. In this way a storehouse of practical information has been obtained along various lines, especially with reference to the great success of permanent tax commissions and the county assessor system.

In September 1911, four members and the secretary of the Iowa special tax commission attended the fifth annual conference of the National Tax Association at Richmond, Virginia, and thereby had the privilege of meeting the prominent fiscal authorities and the leading tax administrators of the country. Three additional meetings have been held outside of Des Moines, one at Davenport, another at Sioux City and a third at Topeka, Kansas. A conference with the Kansas tax commission was decided upon for two important reasons: first, it is generally recognized that the revenue

laws of that state are administered with unusual efficiency, and second, it was concluded to recommend the general principles of that system in the report to the general assembly, making due and necessary allowance for difference of conditions especially along legal and constitutional lines. One member of the commission, Attorney J. H. McConlogue, of Mason City, spent several days in St. Paul in conference with the Minnesota tax commission and submitted a very comprehensive and instructive report of the valuable work accomplished in that state.

In order to come into closer touch with the taxpayers of the state, a meeting was held during the month of January, lasting about ten days, at which the different economic interests were well represented. Farmers, bankers, the railroads, county officials, the terminal tax advocates and various other classes of taxpayers were given a hearing and many suggestions were made of substantial value to the commission in preparing its report.

This meeting, however, was simply preliminary to a general state tax conference called by Governor Carroll to meet in Des Moines, Wednesday, March 20-21st of the current year. Following the experience of New York state and the general plan of the National Tax Association, the official representation was arranged on the following basis:

"In order to make the conference representative in character and to insure an equal voice in the deliberations and in voting upon any resolution which may be proposed, each county will be entitled to three delegates, each of whom shall be entitled to one vote, such delegates to be named by the county auditor; and each university or college, maintaining a regular four-year course, will be entitled to one vote, the delegate to be named by the president of such institution.

"The members and secretary of the executive council and of the state tax commission, one member of the board of supervisors of each county, to be designated by the respective boards, and the county auditor of each county will be ex officio delegates to the conference and entitled to vote and participate in the deliberations."

The fact that the people of Iowa are giving serious attention to the necessity of revising our tax laws is apparent from the large number of delegates who attended the conference and the interest manifested. Seventy-four counties were represented by 281 official delegates. To this large number should be added more than one hundred taxpayers from all sections of the state, thus making a conference of at least four hundred men. The mere fact that so large a number representing nearly every county of the state attended this meeting at their own expense, furnishes conclusive proof of the deep interest which the people generally are taking in the proposed revision of the tax laws. The special tax commission was greatly pleased at the large attendance and the intelligent interest manifested by the delegates in the general discussions.

The value of this convention in moulding public opinion on the various tax questions cannot be overestimated. While there was some misunderstanding and more or less suspicion at the opening of the sessions, this feeling all passed away as soon as the real nature and purpose of the meeting was thoroughly understood. Many delegates went to the conference believing that they knew exactly how the tax question should be solved, but after a two day's session went home doubting just a little of their own wisdom. This in itself was a very substantial gain. Indeed, it was very apparent that practically all of the delegates returned from the conference with more open minds, willing to believe that something was really the trouble with the revenue system and also that the special tax commission was doing its best to ascertain any defects which existed and provide an adequate remedy for the same.

In addition to the meetings above outlined and the investigation of the tax reports of other states, the special tax commission sent out blank forms; first, to the county recorders; and later to the county treasurers for the purpose of ascertaining the actual and assessed value of farm lands and town lots well distributed over the state. While statistics along this line collected by county officials are not as satisfactory as when obtained by expert agents of the commis-

sion itself, it is believed that the data received represent the actual conditions substantially as they exist at the present time. At any rate, it was not possible to send out experts to make this investigation as is done in Wisconsin and Minnesota, simply because the appropriation was not adequate for that purpose.

Having outlined in a general way the efforts made on the part of the commission to study the tax systems of this and other states as required by law, also the present inequalities of assessment between individual property holders on the one hand and various classes of property on the other, we are in a position to indicate the constructive tax reforms advocated by the commission and the arguments and facts which have determined their recommendations. The members of the commission, after their appointment and organization, were not long in reaching the conclusion that while a great many defects exist in the present revenue system of Iowa, by far the most important criticism is the inefficient administration of the law itself. It was soon recognized that this cardinal defect of the system should be corrected before much can be gained by instituting certain other reforms that might be proposed.

Indeed, the conclusion that faulty administration of law is the primary and all important defect of the present revenue system was so generally admitted throughout all of the discussions that the commission itself has always been unanimous in favor of creating a permanent tax commission and also the office of county assessor as the only practicable means of uniformity of assessment and therefore equality of taxation. The original plan was to draft two separate bills, one providing for a permanent tax commission and the other creating the office of county assessor or county supervisor of local assessments. The commission, however, soon discovered that while it is practicable to draft a separate tax commission bill, the moment you undertake to provide for a county assessor, the administrative machinery which must be created, necessarily involves the whole system of assessment and equalization, and, therefore, necessitates a careful and thorough re-drafting of the entire chapter of

the code dealing with assessment. Moreover, it was soon discovered that the whole revenue code is a mere patchwork, having been pieced together session after session for the last half century without any logical plan or definite purpose. The primary recommendations of the commission, therefore, deal with the administrative features of the revenue system, it being generally admitted by authorities on taxation that without the efficient administration of law, uniformity of assessment or anything approaching that ideal is impossible, and without uniformity of assessment we cannot have an equal distribution of the public burdens.

The following facts and arguments are the basis of the recommendation that a permanent tax commission and the office of county assessor or county supervisor of local assessments be created in this state:

1. Judged from the standpoint of low valuation or under-assessment, there has been a complete breakdown in the administration of general property tax. During the last three or four decades this fact has become more and more apparent. By making a careful comparative study of actual valuations as given in the report of the federal census and assessed valuations to be found in the report of the auditor of state, the writer has discovered that in 1850 property was being assessed at approximately its entire sale value. The ratio has, however, rapidly decreased since that period, property being listed for taxation at about eighty-five per cent. of its actual sale value in 1860; fifty per cent. in 1870; less than twenty-five per cent. in 1890, and about twelve and one-half per cent. at the present time. In other words, the machinery of tax administration created for the most part more than fifty years ago, and to a large extent even during the territorial period of our history, has entirely failed to meet the new and more complex economic conditions of the present time.

A system of assessment and equalization which was approximately a 100 per cent. of a success in 1850, fifty per cent. of a success in 1870, twenty-five per cent. of a success in 1890, and only twelve and one-half per cent. of a success, or, in other words, a complete failure at the present time,

certainly has but very little to commend it to the constructive statesman. The only logical result of listing taxable property at about one-eighth of its value is to multiply tax rates in the same proportion. For example, the average tax rate in the rural districts of Kansas is approximately five mills, where property is listed very close to its actual sale value, and between thirty-five and forty mills here in Iowa where property is listed at only a small fractional part of its value.

In this connection it should be stated that political economists and tax administrators almost universally agree that, while it is theoretically possible, it is practically impossible to secure uniformity of assessment, and, therefore, equality of taxation, except on the basis of actual value. The moment a fractional basis is introduced a different valuation will be given to each individual or class of property being listed for taxation. Indeed, the idea that all property subject to ad valorem taxation should be listed at its actual value is recognized by law in every state of the union, and may also be found in every revenue law that has been adopted by the general assembly of Iowa since the very beginning of the territorial period. While fractional assessment has been adopted in Alabama, Illinois, Iowa, and Nebraska, the law requires that the listing of property should be made at its actual value. The fact, therefore, that the experience of all the states, and practically all authorities on taxation, agree that the principle of assessment at actual value is fundamentally sound and is the only practicable means of securing equality in taxation, and the additional fact that here in Iowa the machinery of assessment and equalization has been absolutely unable to realize this ideal, but has departed farther and farther from it, furnish one of the strongest arguments in support of the proposal to create the office of county assessor and at the same time establish a permanent state tax commission.

2. Low assessment or under-valuation of property, however, is not the primary defect of the present revenue system of Iowa. As already suggested, it is theoretically possible to secure equality of taxation on the basis of fractional

assessment. For example, if all property were listed at one-tenth of its value, the only effect would be to multiply tax rates in the same proportion, granting that the same amount of money was raised for the support of schools, the building of roads and bridges and the other legitimate functions of government.

Uniformity, however, has been the exception, and inequality the rule wherever under-assessment has prevailed. Here in Iowa, a study of assessed and actual values on the basis of the sales method has shown that inequalities exist, even in the listing of farm lands, an investigation of more than sixty counties showing that some farms are now being listed for taxation at double, and even three times, the amount of other farms in the same county and even in the same township. In other words, some of the farmers of Iowa are bearing from two to three times more than their just burden of state and local taxation in comparison with their immediate neighbors who support the same school, improve the same roads and construct the same bridges.

When we come to town lots and large corporate property, if it is especially of an intangible character, the inequalities are vastly greater, a fact which has been almost universally proved by other tax commissions throughout the United States.

The present special tax commission has not had a large enough appropriation nor has it been clothed with the necessary powers to make a complete valuation of the different forms of corporate property. We refer not only to the property of railroads, telephone and telegraph companies, in other words, the so-called public service corporations, but also to great producing corporations and large property holdings in general, whether individual or corporate. Indeed, this is an important and necessary work which should be done by a permanent tax commission, vested with larger powers and provided with a sufficient appropriation to carry on the work.

In this connection it should be stated that until a complete inventory of the property of public service corporations has been made, and until a more comprehensive in-

vestigation of the actual value of urban and city property has likewise been carried on by county assessors under the supervision of a tax commission, any statement as to whether this class of property or that class of property is bearing more or less of its just share of the public burdens, will be mere guess work.

At the present time, no data exist which makes it possible to make any reasonably accurate comparison of the relative burden of taxation now being borne by farm lands, town lots, and the property of certain large corporations. The writer has been quoted as saying that certain public service corporations are at present not bearing their just share of the burdens of taxations. No such statement has ever been made, simply because data are not available upon which to base an impartial judgment, nor will such information be available in the future until a county assessor system and permanent tax commission has been established to tabulate and classify the same.

In 1911 the executive council increased the aggregate assessment of farm lands all the way from seven and one-half to twenty-two and one-half per cent. in the various counties of the state. Indeed, the assessed value of farm lands was increased on an average of about twelve and one-half per cent. This was done on the theory that farm lands were being assessed relatively lower than town lots on the one hand and the property of public service corporations on the other. We have already explained that no reliable statistics are available upon which to base such a judgment. In fact, about the only concrete information presented was that submitted by certain railroad tax commissioners, especially Mr. T. A. Polleys of St. Paul, Minnesota, showing that farm lands are being listed on a basis approximately ten per cent. less than town lots or railroad property.

The only suggestion the writer desires to make in this connection is that a change of twelve and one-half per cent. in the aggregate assessment of farm lands throughout the state is of sufficient relative importance to warrant a thorough study of all the facts. The farmers would not object to having their assessed valuation increased, providing such increase

is justifiable. If there is to be an additional turn of the screw, however, in this direction at future meetings of the state board of review, it is highly important that the same be done after a careful investigation of the actual and sale value of farm lands and town lots has been made by county assessors on the one hand, and a complete inventory of public service corporations has been made by a state tax commission on the other.

Along this line of reasoning, the writer desires to make only one additional suggestion. We refer to the broad assumption in many quarters that farm lands are being assessed relatively lower than town property or the property of certain large corporations. Indeed, an effort has been made in this connection, largely for political ends, to draw a line of cleavage between the city and the farm. Statistics have been collected for the purpose of showing that town lots are being listed higher than rural property. The only trouble with practically every investigation made along this line is the fact of its incompleteness. Everyone knows that it is possible to go to the court house records of Polk county or any other county of Iowa and prove that property in the city is being listed at seventy-five per cent. of its value or even more. Indeed, I might prove here in Des Moines that property is now being listed at 100 per cent. of its value. I might also prove that property is being listed at less than fifty per cent. of its value. It all depends upon the property that is being compared. Reduced to its lowest terms the aggregate assessed value of farm lands has not been compared with the aggregate assessed value of city property, but rather with the property of small home owners in the cities, which everyone knows is being listed relatively too high in comparison with other forms of property. In other words, the line of cleavage is not between the country and the city but between the small property holder and the large property holder, whether a natural individual or a corporation. The sooner the people of Iowa get this idea clearly in their minds the more rapid will be the progress of scientific tax reform. Tax reform which means uniformity of assessment, and, therefore, equality of fiscal burdens, is for the especial bene-

fit of the poor man, whether living in the country or in the city. Any effort to create friction between the country and the city can have no good purpose, except to result in confusion and befog the real issues.

3. The low valuation on the one hand and inequality of assessment on the other, already outlined, are primarily the result of our present machinery of assessment and equalization, which is almost entirely *ex officio* in its personnel and, therefore, wholly inefficient in its practical workings. Each local assessor and each local review board are laws unto themselves. The county board of review meets only a short time in June, and the state board of review only a few days in July. Three or four days' time is given to a work which ought to require intelligent and conscientious labor throughout the entire year. Under the present system there is no county or state official who is required to give all of his time to the important task of uniform assessments. Until the office of county assessor is created there will be no one whose business it is to see that assessments are uniform between individuals, on the one hand, and local subdivisions of government on the other. In like manner, until a permanent tax commission is created there will be no state board giving all of its time to the important task of equalizing values between counties, and at the same time listing the property of public service corporations. Reduced to its lowest terms, the primary defect of the present system is faulty administration, which in turn is due, as already suggested to the planless and *ex officio* character of our present system of assessment and equalization. There should be a central supervising officer in each county and a central state board giving their full time to the work of assessment and equalization.

4. As above suggested, one of the important duties of a permanent tax commission is to make a thorough and complete valuation of the property of public service corporations. Until this is done, we will have no way of determining whether or not farm property, or in fact any other class of property, is bearing more or less than its just share of the public burdens. Practically all statements made along

this line up to date are not founded on any authoritative information. In other words, any comparisons which have been made between the aggregate assessed value of farm lands, town lots and corporate property have been very largely, in fact almost entirely, guess work.

5. In the next place, it should be stated that one of the most important reasons why the office of county assessor and a permanent tax commission should be established is the necessity of providing adequate machinery for the administration of the five-mill tax on moneys and credits. Governor Carroll in his address of welcome referred to the fact that on the basis of the listing of moneys and credits for the present year, the state alone will lose more than \$75,000 which means that the local units of government will lose more than \$1,000,000 for the same reason. One method of procedure in this case would be to repeal the present law and go back to the former tax ferret system, which practically every authority on taxation has condemned. The other, and, in the judgment of the writer, the most intelligent plan would be to provide machinery of assessment capable of listing moneys and credits as required by law. The fact that this can be done has been abundantly proved by experience in Maryland and Minnesota. While the listing of moneys and credits under the new flat mill rate here in Iowa is substantially the same as under the old system, the amount listed in Minnesota, Rhode Island and Maryland, where tax commissions exist, has increased by leaps and bounds. Present local assessors are not in a position, and never will be in a position, to compel anything approaching a complete listing of moneys and credits. County assessors have access to county records, and by communicating with each other and acting at all times under the supervision and leadership of a permanent tax commission, can secure the listing of this class of property. This fact has been proved by actual experience and is not mere theory.

The farmers should bear in mind that the million dollars or more which has been lost by the small listing of moneys and credits under the flat mill law, must be made up in a large measure by an individual levy on farm lands. If a county assessor system had been in operation, the experience

of other states shows that enough moneys and credits would have been listed to more than counter-balance the reduced rates. In other words, there ought not to have been any loss of revenue. I firmly believe that a county assessor and tax commission system would secure more revenue under the flat mill rate than was obtained under the old law.

It is conservative to estimate that the county assessor and permanent tax commission system proposed by the special commission would increase the revenue by not less than \$1,000,000 and perhaps \$2,000,000 or \$3,000,000 and that on a class of property which is abundantly able to bear its just share of the public burdens. This, in the judgment of the writer is one of the most important reasons why the farmers of Iowa should be enthusiastic advocates of a county assessor and permanent tax commission.

6. Finally, the experience of other states, especially during the last few years, constitutes one of the strongest arguments in favor of creating a permanent state tax commission. In 1900 such commissions existed in only five or six states of the union, while at the present time half of the states have established a permanent tax commission or the office of permanent state tax commissioner. This list includes all of the states east of the Mississippi and north of the Ohio and Potomac rivers except Pennsylvania and Illinois. In the south, Alabama, North Carolina, Arkansas, Arizona and Texas have also established central state boards. In addition to this list of states should be mentioned Washington, Oregon and California on the Pacific coast, and Minnesota, North Dakota, Colorado, and Kansas in the central west. This shows that public sentiment throughout the union is coming more and more to favor some efficient system of tax administration. When we consider, moreover, the great success of these various tax commissions in securing more complete listing of intangible property on the one hand and greater uniformity of assessment on the other, it furnishes substantial, if not conclusive, proof that the recommendation here in Iowa in favor of creating a county assessor and permanent tax commission rests upon the foundation of the best economic theory and at the same time the most successful practice.

THE DEFEAT OF THE VIRGINIA TAX REFORM BILL, 1912

BY DOUGLAS S. FREEMAN, PH. D.

Secretary of the Special Commission, 1910-1912

(Read by Mr. Frank Orr, Secretary Oklahoma State Board of
Equalization)

In the midst of jubilation over new victories won for tax reform, a lonely voice of lamentation may not be welcome, but it cannot, I think, be valueless. Some of our efforts for tax reforms must in the nature of things, meet with defeat, and as I chronicle one of these, I may be able to caution some of my fellow-students of reform regarding the dangers that lurk by the way. At the very least I may exemplify a new version of an old proverb,—that there is many a slip between the printed report and the enacted law.

Following two years of agitation, our Virginia commission was organized in 1910, with instructions to report to the general assembly of 1912. To the best of our ability, we discharged our duty and, in December, 1911, issued a report of some 350 pages. In this the secretary reviewed conditions in Virginia, discussed the various methods of reform and detailed the plans which he thought most desirable to relieve conditions. This report of the secretary was prefaced by a brief general report, signed by the full commission and widely distributed. Of numerous reforms recommended by us, the following were the most important:

First, the creation of a permanent commission with powers to fix average valuations for given districts and to correct palpably unreasonable valuation.

Second, the adoption, as soon as practicable, of a new system for the taxation of public service corporations, the same being a slight modification of the Foote differential discussed at the Richmond conference.

Third, the abolition of the flat rate on all classes of property and the adoption of a low rate on intangibles.

Fourth, the simplification of the system of assessment and the removal of unfit local assessors by the tax commission.

Fifth, the central assessment of mineral lands.

Sixth, the report of incomes paid by all corporations, firms and chartered concerns, said report to be for the information of the local assessor only.

Our report was widely circulated and came before the assembly in January under the most favorable auspices. The press of the state, with a few minor exceptions, was loud in its demand for the enactment of our reforms; the governor made it the subject of a special message to the assembly; Mr. Speaker Byrd, regarded as the ablest man in the legislature, was patron of the various bills; Col. A. M. Bowman, a member of our commission, was chairman of the committee to which the bills were referred. During the first week of the session, it seemed as though the entire programme would be carried through without a single omission.

But this bright outlook was soon overcast by storms of the most violent opposition; a few disgruntled individuals, whose places were endangered by the bill, were constantly on the floor to oppose us; the official organ of the farmers' union fired broadside after broadside against the commission bill; ambitious legislators of destructive instinct criticised where they would not propose an alternative. Seeing defeat ahead, Mr. Byrd recommended that the bill be recommitted and introduced a substitute commission bill, giving the commission authority only where the returns were manifestly false. This bill in due season was reported without amendment by our admirable finance committee and entered upon a checkered career in the lower house. By dint of the greatest effort and in the face of acrimonious opposition, we brought the bill to its passage, but as it was a revenue measure, it required a clear majority. This it could not obtain until a fatal amendment was introduced by an opponent of the measure. This amendment provided that the commission authorised should consist of three members, one the state accountant, and the other two "practical agriculturists." By the magnificent majority of

one vote, this bill passed the house and went to the senate. The *post mortem* held there disclosed the fact that the opponents of the measure, in providing for "two agriculturists" on the commission had failed to strike out the other conflicting provisions and had left us with a bill hopelessly illegal. It was then a case of *sauve qui peut* and our bill was abandoned on the derelict-riden sea of the senate calendar. When the session was over and fragments were gathered up, we found that our experience had been as follows:

Bills introduced	17
Favorably reported by house finance committee	14
Reported with amendments	1
Not reported	2
Passed house of delegates	2
Passed both houses	1

For the mountain thus to travail and give birth to such a mouse was lamentable but would not interest this conference but for the reasons about to be assigned. These, it will be seen, are not presented as excused for our own failure but as warnings of what may be expected in other states of like citizenship and traditions.

The first reason for our failure lay in the fundamental fact that the system we proposed was *centralised*. The old system was local and failed largely because it was local; the systems that had brought about equality in other states had achieved their end by centralised authority. Thus we reasoned and thus we acted—but without reckoning on our legislators. We of the south are strong for local government: it is said to be Jeffersonian and democratic, it is certainly traditional. To propose anything that limits the authority of the county and of the district within the county and of the citizen within the district, is to wave a red flag in a bull's face. Indeed, four-fifths of the opposition with which we met came from those who denounced any system as centralised. "You have welded a chain of educational serfdom about our necks," cried one good legislator,—a worthy, honest man,—"and now you would bind us with the yoke of tax slavery!" Speaking to the south-

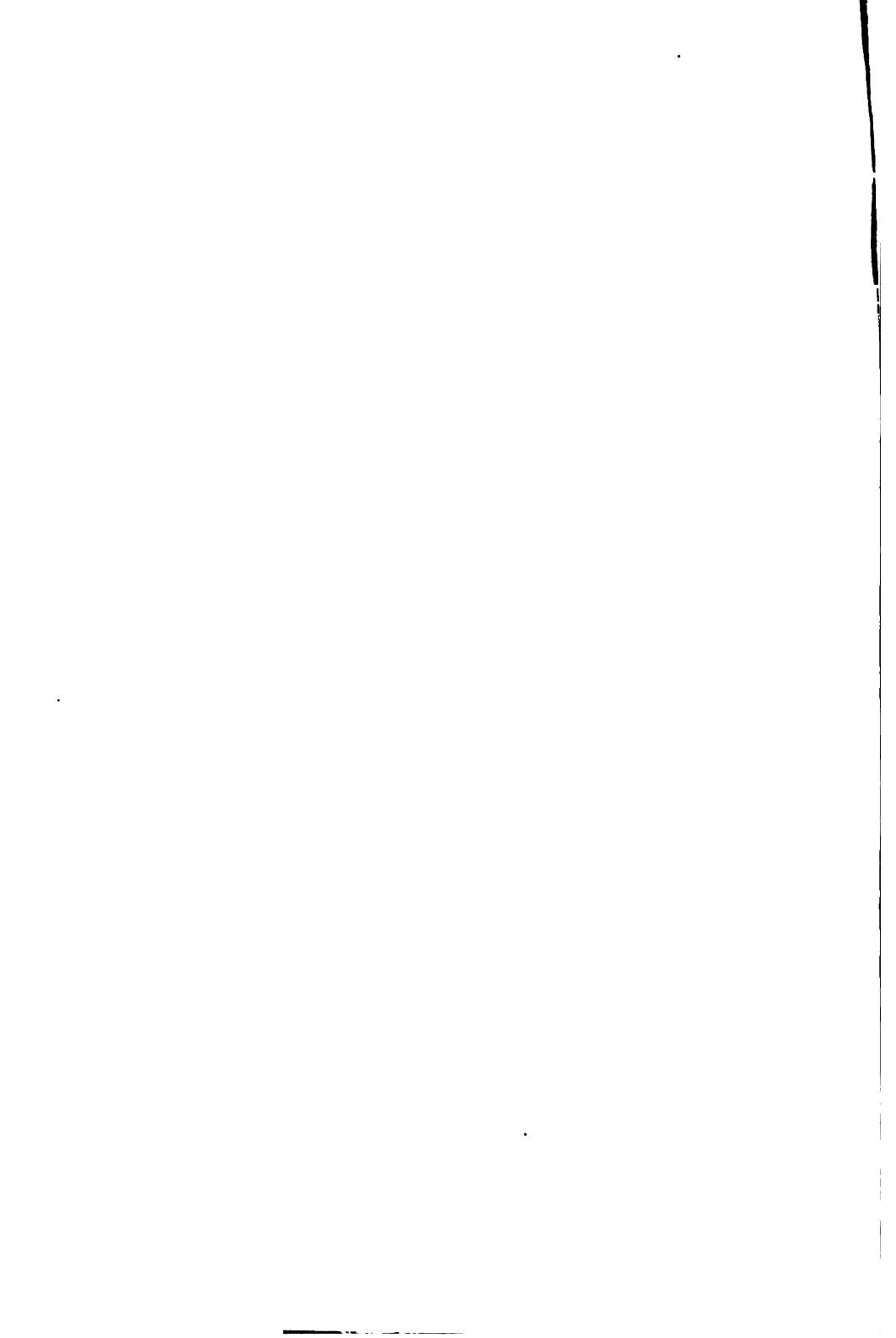
ern delegates, in particular, permit me to say that when you find centralisation essential to tax reform,—as you surely will,—do your utmost to minimise that fact in presenting your case.

Again, we met with defeat because we were frank. As I took occasion to point out to the last conference, we are blessed in Virginia with thirty-seven counties which draw from the public treasury more than they contribute. We were undiplomatic enough to publish this fact in dollars and cents and to declare that tax reform would remedy this ancient evil. Now it happens that those thirty-seven counties controlled more than forty votes in an assembly of one hundred. Some of them,—a very, very few,—were bold enough to declare that their people wished to pay their part; the others joined to themselves the malcontents and controlled the action of the house. If, in commenting on this fact, I might again pose as an adviser, it would be to point this moral to future tax reformers: never advertise whose toes your tax boot will pinch when those toes belong to the majority.

Again, I attribute our defeat to the currency in Virginia of the principle of tax separation. How this theory came to be so well-known has always puzzled me, for there are not many in Virginia, vitally interested in political economy, yet this principle was the stock-in-trade of our opponents. Now, the day may come when complete separation of the sources of revenue is possible in Virginia, but that day is not at hand. To separate now would be to burden a large part of a long-suffering population. Yet this plan was boldly presented to the assembly in opposition to our own and, despite its unreasonable character at the time, had many champions. We were twitted with not presenting to the assembly this panacea for tax ills and we had to spend much time in arguing that Virginia could not, at one step, go from the foot of the tax ladder to the top-most round. This may be a local condition and one that will not occur elsewhere, but I think other southern commissions should take warning and, where they cannot recommend separation, should explain at great length and in much detail, why they cannot recommend too great reform.

There were other obstacles in our way,—a bitter warfare

between county and city, the introduction of personal issues, the activity of those whose scalps were in danger,—but these cannot interest the association or be of value to other commissions. We did our best but we could not command the votes,—this perhaps is the explanation in a word. Two years of newspaper agitation and two years of painstaking work were not sufficient to overcome the traditions of generations, the complaisance of long-seated injustice. Yet I wish to assure the association that we have not despaired. Taking courage from the brave fight of our brothers in West Virginia and Rhode Island, we shall press the war, continue the agitation and present to the next assembly new reform bills. We shall labor, in short, to remove from Virginia the stigma of a tax code that would make a Louis XIV blush in shame; we shall strive to report to a future association a tax code that will stand comparison with the magnificent statutes of Kansas, West Virginia and Michigan.



REPORT OF SPECIAL TAX COMMISSION OF UTAH

BY C. S. PATTERSON

Member of the Utah Board of Commissioners on Revenue and
Taxation, Salt Lake City, Utah

The legislature of the state of Utah, in 1911 provided for a commission of three members, to study the revenue laws of the state, and other states, and to report to the next legislature a general revenue bill which, it was hoped, would be an improvement on our present laws. Since the appointments were made we have been engaged in this work.

The state has always been hampered by its constitution, which provides for "a uniform and equal rate of assessment and taxation on all property in the state according to its value in money." This provision, notwithstanding its seeming equity, has operated in Utah, as elsewhere, to practically exempt from taxation a very large proportion of the property of the state, being all the property commonly designated as intangible personal property.

Fortunately the procedure for amending the Utah constitution is not involved or difficult; the only requirement being that the proposed amendment be enacted at a single session of the legislature, and ratified by a majority of the people voting thereon at the next general election.

Already this objectionable provision of our constitution has been amended by the legislature by substituting the following: "All taxes shall be uniform on the same class of property within the territorial limits of the authority levying the tax, and shall be levied and collected for public purposes only."

This amendment, if ratified by the people at the November election will enable us to recommend a bill classifying monies and credits, and we propose to recommend a flat rate in some amount, on which we are not yet agreed, but which will be from three to five mills.

While it is, perhaps, difficult to justify on the grounds of strict justice and equality, so low a rate on so large a class of property, the experience of our state has been like that of every other, and the provision of our constitution requiring every class of property to bear its full share of the public burden has been simply a nullity, for the amount of tax that we have heretofore been able to collect from this source has not been sufficient to pay the cost of its collection.

We are encouraged by the experience of other states which have made this experiment, and if the amendment to the constitution is ratified, we have decided to make this recommendation.

The present tax commission is but temporary, and its duties will end with its report to the legislature of 1913. We have no permanent tax commission in this state.

By another proposed constitutional amendment the duties of the state board of equalization will be very greatly enlarged, and under that provision we expect to recommend a bill which will virtually make of the state board of equalization, a permanent tax commission.

To that board will be given the supervision over the assessors of the several counties, which will be a supervision in fact, and not in name alone. The board will have power to direct and enforce obedience to its directions in all matters of assessment within the several counties, as fully and completely as if the assessors were their simple clerks or deputies. It will be able to order reassessments in whole or in part, in any or every county, and with this strong central authority in the assessment of the property of the state, we believe that the occasion for equalization will practically disappear.

I was particularly interested in the paper of Professor Brindley and the efforts that they are making in this state (Iowa) towards tax reform, and I was particularly struck by the fact that they are attempting now to get to the place that we are just leaving. (Laughter.) They want to substitute for their township assessor the county assessor. They want a state board of equalization with exactly the same powers that our state board of equalization now has. I would suggest to the gentlemen from Iowa, and I do it with all the more free-

dom because I myself for about thirty years resided within the state of Iowa, that they come with us, that instead of making a county assessment they make a state assessment, that after obtaining county assessors they put them under the direction of a central authority, and make their state commission do for the state what they are attempting to do for the county.

PROF. JOHN E. BRINDLEY (Iowa): I would just like to ask you one question. How long have you had a permanent tax commission in Utah?

MR. PATTERSON: We have no permanent tax commission now and never have had.

PROFESSOR BRINDLEY: You made the statement that you are just leaving off where we propose to start. Your main recommendation is the same as ours exactly. You are recommending a permanent tax commission and so are we.

MR. PATTERSON: Yes, but I didn't understand you were giving your permanent tax commission authority over the county assessor, or authority to go into a county and order a readjustment. You said the county board should have authority to equalize between classes. That is just what our state board of equalization has power to do now. If the recommendations which we shall make are adopted, it will provide that the several authorities may go into any county and may order a readjustment in whole or in part, even to one man's property or to a portion of the property of one man.

PROFESSOR BRINDLEY: I could not go into detail there. I just wanted to correct a wrong impression. We are clothing our county assessor with more powers than the county assessors of Kansas possess, and under the system in Kansas very admirable results have been obtained along that line.

MR. PATTERSON: I judge you are giving the county assessor just the powers that the county assessor in our state has at the present time.

PROFESSOR BRINDLEY: We are giving the tax commission very large authority over the county assessors.

MR. PATTERSON: Yes, we are giving the central authority the same authority over the county assessors that you will give the county assessor over your township assessors if you retain the township assessor.

PROFESSOR BRINDLEY: What I want to make clear to the conference is, that your main recommendation in Utah and our main recommendation in Iowa are evidently the same, namely, for a permanent tax commission.

(Mr. Patterson here resumed the reading of his paper.)

The statutes of the state at the present time require the assessment of property at its full cash value. This requirement, probably because of the desire of the counties to escape paying more than their fair proportion of the state tax, is, and always has been a dead letter. The ratio varies from probably less than five per cent. in case of intangible personal property, to not more than forty per cent. on real estate in some of the towns and cities.

We shall endeavor to compel a compliance with this provision of the law, and we believe that the only method of enforcing such compliance is by limiting the levies that may be made.

The board, during the present summer has been engaged in quite an exhaustive examination throughout the several counties of the state, in order to determine the ratio of assessed to true valuation of the property of the state, for the purpose of fixing these maximum levies. The results of our labors in this direction have not yet been fully tabulated, but we have gone far enough to be confident that the maximum rate will be placed somewhere between ten and fifteen mills. When the levies are thus limited, the counties will be obliged to see that the property is assessed at its full value, in order that the revenue necessary for county and school purposes may be raised. There will, of course, be a provision for additional levies, to be made, however, only on the vote of the taxpayers within the district affected.

Our present inheritance tax law is rather crude. It makes no distinction between direct and collateral heirs; the exemption is large, ten thousand dollars in all cases, and the tax is not progressive, but is a straight five per cent. tax on all amounts over the exemption. The exemption applies to the entire estate, and not to individual bequests.

The state has, during the last few years, been exercising and enforcing its power to collect the tax from the estates of non-

residents holding stock in domestic corporations. In one recent instance the state succeeded in collecting nearly one million dollars from the estate of a prominent resident of New York.

The equities involved in the collection of this particular tax are still the subject of acrimonious debate; the authorities in those portions of the country where reside the greater number of people holding such securities, insist that such stocks are personal property, that the situs is the domicile of the owner, and that the tax is properly collected only in the jurisdiction where the deceased resided at the time of his death; other communities which have within their borders a large amount of property belonging to corporations, the stock of which is held by nonresidents, insist that the certificates of stock are but evidences of ownership, and that in cases of domestic corporations, the tax is properly collected in the jurisdiction where the property is situated.

From the fact that the champions of these antagonistic positions come respectively from those locations which would be most benefited by the enforcement of their several claims, it seems fair to assume that there may be a slight admixture of selfishness in the discussion, and that, as yet, there has crystallized no true rule which can be accepted by all.

We have practically decided to recommend a law which will retain the right to collect the inheritance tax on stock of domestic corporations held by nonresidents, but in the case of corporations holding property in more than one state, we shall recommend the collection only on such proportion of the stock held by the decedent, as the property within our state bears to the entire property of the corporation. We believe this would be a fair solution of the question, or at any rate as fair a solution as our people are prepared to make at this time.

The law which we shall recommend will be classified and progressive. Beneficiaries are divided into six classes, with exemptions ranging from ten thousand dollars for widow or minor children to nothing at all for remote relatives or strangers, and the tax rate will be progressive according to the amount of the inheritance above the amount of the exemption.

There is no tax that bears so unequally upon the people as

the poll tax. In fact it may almost be said that it bears on no two people alike. In the perfect system, each citizen contributes to the support of government in proportion to his ability to pay. The poll tax levies a fixed sum on each male citizen without considering whether he is a day laborer or a millionaire. It is hard to collect, and experience has shown that those best able to pay the tax have evaded or refused to pay it, while those least able to pay have not escaped. The amount in each case is so insignificant that so far as the municipality is concerned it is easier and cheaper to collect only from those who pay voluntarily, or who can be scared by threats of suit or other proceedings, leaving the more sophisticated to go free. We shall recommend the entire abolition of this tax.

Our present laws for the assessment of real estate are quite admirable. They provide for the separate assessment of lands and improvements. Many of the counties have valuation maps and tables, and as a rule we find that the real property throughout the state has been quite equitably assessed, the only criticism being that town and city property is generally assessed a little higher than farms.

For the purpose of providing a check on the assessment of real property we shall recommend that before any deed is entitled to record, there shall be presented to the recorder the affidavit of the grantors and grantees, or their agents, stating the true consideration for the transfer, and, if the consideration was property other than money, then a statement of the actual cash value of such property. These affidavits to be transmitted directly to the state board of equalization, and kept as secret records of its office, information of their contents to be furnished only to the assessor of the county in which the property is situated.

One of the most difficult subjects of taxation is the mining industry. It is, of course axiomatic that the mines of the state should pay their fair proportion of the cost of government, and at the same time should not be called upon to pay more.

This state seems firmly committed to the principle of taxing the net proceeds of mines, and we are not prepared to say that any better system has been, or in the nature of things, can be devised.

There are however some incongruities connected with our present system of taxing the net proceeds of mines.

For example, roughly speaking, the total value of a mine, at the time it commences to have "net proceeds" is the total value of the ore in the mine, less the cost of extraction, treatment, expense, etc., or in other words, the sum of the annual net proceeds of the mine during all the years it continues to be a mine, or to have net proceeds. The second year the value is the first amount, less the net proceeds for the first year; the third year the same amount less the net proceeds for the first two years, and so on. The average value of the mine during its life, is one half the average annual net proceeds, multiplied by the number of years of its productive life. Practically, of course, the mine is worth something less, as no account has been taken, or deductions made, on account of legitimate profits.

As an illustration, say a mine produces one million dollars in net proceeds annually for one hundred years. Theoretically at least, the first year its value is one hundred million dollars, and its average value during its life is fifty million dollars. Practically its first year value is at least fifty million dollars and its average value twenty-five million dollars, and yet each year it pays taxes on only one million dollars (surface lands, machinery and improvements are omitted from this illustration as negligible). The full value of the mine, therefore, under our system, pays taxes but once during the life of the mine. A horse or cow, on the other hand, pays taxes on its full value every year of its life.

It is true that in the case of mines, the land, improvements and machinery are also taxed, and it is also true that under our present system of assessing property, the general property of the state is assessed at not more than one third of its true value, while the net proceeds of mines are assessed at full value. These considerations tend in some slight degree to equalize the taxes of the mine with those of the farm, but even as matters now stand we do not think that it can be successfully contended that the mines of the state are bearing more than their fair share of the public burden.

Whatever inequalities there now are will be greatly increased when all the property of the state is assessed at its full cash

value, and the amount of the levies reduced, unless some measure is adopted to correct them.

For example: Under present conditions, in the same county, is a farm worth thirty thousand dollars, and a mine with annual net proceeds of the same amount. The tax rate is forty-five mills. The farm is assessed at one third its value and pays annual taxes amounting to four hundred fifty dollars. Net proceeds of mines are assessed at full amount, and the mine pays taxes amounting to thirteen hundred fifty dollars. This result is probably fairly equitable, although the mine pays a tax on a value only three times the amount of its annual profits, as compared with the farm. For every year that it pays profits, or has net proceeds, above three, it has just that much advantage over the farm and pays that proportion less of its just burden.

The next year, however, the farm, and all other property, is assessed at its full cash value, and the rate reduced to fifteen mills. The farm pays the same amount in taxes four hundred fifty dollars, but the mine, having already been assessed at the full value of its net proceeds, cannot be assessed higher, but is still assessed at thirty thousand dollars, and pays, by reason of the reduction in the levy, but four hundred fifty dollars in taxes, or no more than the farm.

To correct the injustice that would arise from such a situation, we recommend that mines be classified, and charged a higher rate on their net proceeds, such higher rate being sufficient to at least preserve the present ratio between mines and other classes of property.

The situation of Utah in relation to railroads is peculiar. Owing to the physical characteristics of the state some of the counties are very large and comparatively thinly populated, and some of these counties have hundreds of miles of railroads within their borders. While railroads are assessed by the state board of equalization, the tax is levied, collected and expended by the several counties through which they run. Nor under our present constitution is it possible to provide a different arrangement. By reason of this situation some of the counties whose area is large and population small, collect a very large percentage of their entire revenue from railroads, while other

counties with greater population, but smaller area, receive but a small amount, or nothing at all from such source, notwithstanding they contribute more to the business of the railroad than the county receiving the larger tax. That this situation is inequitable and unjust is admitted by everybody except, perhaps, the residents of the counties profiting thereby. This commission therefore, will recommend to the legislature an amendment to the constitution which will permit the state to assess, levy and collect the tax on all public service corporations operating in more than one county in the state and apportion the proceeds among the counties according to some just system based either upon population, assessed value, number of children of school age, or such other method as may hereafter be found to be equitable and just, giving perhaps first to the counties in which the roads are located a certain portion not to exceed fifty per cent. of the amount of the tax.

The foregoing are a few of the more important problems that have confronted this commission, and the result of the efforts that we have thus far made to solve them.

THE SPECIAL TAX COMMISSION OF KENTUCKY

BY W. O. DAVIS

Chairman Tax Commission

I was requested by the secretary, Mr. Pleydell, to prepare a paper about twenty minutes in length, and to entertain you with about ten minutes of it, reserving a "leave to print" for the remainder, my subject being "The Tax Situation in Kentucky, and what the Special Tax Commission is doing towards its revision." I shall endeavor in my talk to confine myself to the ten minutes limit, and if I should exceed it, I assure you that I shall be as much disappointed as you will.

I take it that the situation in Kentucky with reference to taxation is not materially different from what it is in a majority of the states which are now wrestling with this great problem. Our present state constitution was enacted in 1891, and sections 171 and 172 contain the following language:

"Section 171. The general assembly shall provide by law an annual tax, which with other resources shall be sufficient to defray the estimated expenses of the commonwealth for each fiscal year.

Taxes shall be levied and collected for public purposes only. They shall be uniform upon all property subject to taxation within the territorial limits of the authority levying the tax; and all taxes shall be levied and collected by general laws.

Section 172. All property not exempted from taxation by this constitution shall be assessed for taxation at its fair cash value, estimated at the price it would bring at a fair sale; and any officer or other person authorized to assess value for taxation, who shall commit any willful error in the performance of his duty shall be deemed guilty of misfeasance and upon conviction thereof shall forfeit his office and be otherwise punished as may be provided by law."

It is safe to say (especially at this distance from Kentucky) that no property has been assessed at its fair cash value, and that no assessing officer has ever been convicted of committing "any willful error in the performance of his duty." And I

repeat that the situation in Kentucky is not materially different from that existing in the other states which are now wrestling with this problem of taxation.

Doubtless when the framers of our organic law had completed section 171, they felt that their action was both wise and fair; when they provided that taxes should be *uniform* upon all property subject to taxation, the taxpayers must have approved and applauded their action, but however applicable this provision may have been to conditions existing then, (1891) it is totally unfitted to the present, and its wisdom and fairness are in sound only.

For ten years past, some of our public spirited citizens, with little encouragement and indifferent success, have been hammering away at this provision of our constitution, which they firmly believe to be detrimental to the growth, material progress and welfare of the state. For their pains, they have been regarded with more or less suspicion as having an axe to grind, or tax to avoid, and for a while it was only necessary to evince active sympathy with this band of patriotic citizens, to be classed as a plutocrat with large holdings and sinister motives. Consequently, up to the present time, but little has been accomplished towards a revision of our tax laws, other than the education and conviction which necessarily follows this constant agitation. Otherwise we are *in statu quo*. Now for the benefit of my friend from Oklahoma over there, who professes not to understand Latin, I will explain the meaning of the phrase *in statu quo*. An impatient litigant sitting in a court room, waiting for his case to be called, pulled the coat of his attorney who was just arising to address the court on another matter, and asked him, "What about my case," and his attorney replied, "Oh, it is *in statu quo*." The litigant puzzled his mind over the matter for a while and not being able to figure out what his lawyer meant, turned to another attorney near him, who had overheard the remark and whose bump of humor was fully developed, and said to him, "What does *in statu quo* mean?" And he, with a straight face, replied, "It means in a hell of a fix."

However, the citizens and taxpayers of our state have become thoroughly aroused to the importance and necessity of a

change in our tax laws, and the demand for a sane revision is growing steadily as the people become awakened and familiar with the iniquities and failures of the general property tax, but while the necessity of this change is generally conceded, yet they hesitate and fear to tamper with the constitutional provisions on the subject, lest their condition might be like that man of old, referred to in the scriptures, who, when the unclean spirit was cast out, and not finding the rest sought, returned and took unto himself seven other spirits more wicked than himself, who entered in and dwelt there, until the last state of that man was worse than the first.

This fear of a change is not confined to the ignorant or thoughtless, but it pervades all classes and conditions of society. A distinguished governor of an adjoining state, in addressing the last session of our general assembly, advised that in tax revision, they should not make the mistake of attempting to amend the constitution, so as to authorize the classification of property, because, as he expressed it, then, "the longest pole would knock the persimmon." It required no flight of fancy or depth of thought to surmise in whose hands the longest pole would be found.

So you will observe that our condition is in some measure attributable to our environment and the "horrible example" of our neighbor state referred to by the gentleman from Ohio in his paper last evening. The fear of the small propertyholder, who is in the majority in every state, that his property, consisting of land and tangible personal property, will bear the burden of taxation in any change of the tax system, makes him "content to bear the ills he has, rather than to fly to others he knows not of," the difficulty being that he does not fully comprehend or appreciate that under the general property tax, he is already bearing the brunt, and any intelligent change would necessarily be to his advantage and for his benefit.

The unrest and dissatisfaction with our general property tax and the desire for relief and reform has been recognized by the appointment, within the last few years, of three tax commissions. One in 1906, which made some improvements in the tax laws by way of amendments, but expressed their inability to

accomplish the needed reform under the constitution as it then existed. In 1910, the governor, on his own motion, appointed a tax commission and advisory commission, consisting of twenty-six members, drawn from all the walks of life and representing all of the various interests which are taxed in the state. This commission, after a year's study of the tax problems, summed up their findings and conclusions in clear, concise terms, and their report was filed with the governor of the state, and through him, given to the general assembly, and the proverbial water poured on the duck's back, did not glide off with greater celerity and less effect, than the report and recommendations of this tax commission did off of the solons composing that legislative body.

A few short extracts from this report may not be amiss in this connection, as showing the commission's estimate of the general property tax, to-wit:

"Our system of taxation in Kentucky is what is known as the general property tax system—a system whose fundamental principle is, that taxes shall be collected from all kinds of property at the same rate and by the same method, without any regard to differences in character and productiveness. This system of taxation is rapidly being abandoned by progressive commonwealths. It has been wholly abandoned by thirteen states of the American union, and other states are preparing to abandon it. Though derived originally from Europe, it has been abandoned by all Europe, except some of the Swiss cantons. The operation of this system in Kentucky has been in no wise different from its operation elsewhere. The effect has universally been the same—an unfair proportion of the burden of government borne by visible property, which cannot escape taxation, and wholesale evasion by such forms of property as are easily hidden.

* * * * *

Whether or not it was the best system for Kentucky when adopted eighteen years ago it is certain that the swift and radical changes in economic conditions that have taken place since its adoption have made it wholly unsuited to our needs. It does not distribute the burden fairly. It does not reach some property at all. It does not produce the necessary revenue. And it puts our people and our industries at a disadvantage in competition with other states.

* * * * *

We would sum up the complaints and defects in the system of taxation in Kentucky as follows:

First—It does not produce sufficient revenue for the proper support of the state and local governments, including necessary provision for public improvements, and it cannot be made to produce sufficient revenue, in spite of constantly increasing the tax rate, the tax rate being already so high in very many counties of the state that to further increase it merely offers an additional incentive for undervaluation of property and evasion of assessments.

Second—It unjustly places an undue portion of the public burden on some classes of property, and especially upon real estate, while permitting other classes of property entirely to escape taxation.

Third—Its inequalities have resulted in driving and keeping from the state a large amount of capital that is needed in the development of its business.

Fourth—It produces evasion, dishonesty and perjury; encourages contempt for the law, and lowers the moral standard of our people."

The present special tax commission consists of five members, four appointed by the general assembly from its members, and one by the governor, all without compensation. This commission is charged with the duty of investigating the revenue laws of the various states, and to recommend a plan for the revision of our tax system, and for this purpose is authorized to employ an expert in taxation and public finance to assist it in its labors. The commission is at present engaged in the study of the various systems of taxation, adopted by other states, for the purpose of selecting that system, or calling from several systems, those provisions best adapted to the needs of Kentucky, and convincing the people that they need the change. May I not in this connection say, "Pray for us, brethren," because you will observe that we are sent out like the apostles of old, without scrip or purse to convict and convert an unbelieving and perverse generation. This commission is required to make two reports of its findings—one to the governor, before January 1, 1913, and a fuller one to the legislature when it convenes in 1914. The first report is for the information of the taxpayer, who is to vote on a proposed amendment of section 171 of the constitution at

the November election, 1913, which amendment is as follows:

"The general assembly shall provide by law an annual tax, which with other resources, shall be sufficient to defray the estimated expenses of the commonwealth for each fiscal year. Taxes shall be levied and collected for public purposes only, and shall be uniform upon all property of the same class subject to taxation within the territorial limits of the authority levying the tax; and all taxes shall be levied and collected by general laws. The general assembly shall have power to divide property into classes and to determine what class or classes of property shall be subject to local taxation.

Bonds of the state and of counties, municipalities, taxing and school districts shall not be subject to taxation."

If this amendment is ratified by the voters, the hands of the legislature will be untied and it will be free to adopt that plan of taxation best suited to the needs of the state, and to amend it from time to time as the changes in economic conditions may require, and the people by their vote ratify the referendum attached to the proposed amendment.

In our search for relief in Kentucky from the failure and inequalities of our tax system, we have tried the experiment of the "tax ferret," but his burrowings became so pernicious and harassing as to discount the efficiency of his labors, and to create a demand for his elimination or supervision and control, and the latter plan was adopted by our last legislature.

Complaints about and criticisms of our archaic system is not confined to the tax commissions but the officers charged with its administration recognizing its many defects and the difficulties attending its enforcement, have assailed the system from time to time in no uncertain terms. Listen to the wail of the state board of equalization in its report for 1911:

"In this, as in former years, there was no occasion for reducing any county's returned assessment. Not one of them was assessed at a measure of its fair cash value. Forty-seven counties were not changed—not for the reason that the board considered them properly assessed, but because, if they were increased, the counties that had a per cent. added would have to have them raised correspondingly higher.

The transfer sheets upon which we are to primarily base our decision, as they are at present returned, are in most cases almost worthless; some for the reason that the purchase price is purposely hidden under "one dollar and other considerations;" many have no value fixed by the county supervisors; some have no value fixed by the assessor; much is "listed with other property;" in numbers of instances the acreage is not given; in nearly all some one term is withheld, which makes a comparison between the sale value, assessed value and supervisor's value impossible. In many cases it is a result of ignorance, carelessness or slovenliness; in others, shrewdness and duplicity—done purposely to mislead. When witnesses are sent, they oftener serve to confuse than otherwise. All witnesses who appear before the board are appointed by the county judge after he has received notice of a tentative raise by the board. It is seldom that the judge will select a witness who has not formed an opinion and expressed a desire to appear in defense of his county. All the evidence before the board is *ex parte*. The record is made by the county officials and all witnesses selected for the purpose of testifying for the defense.

There are a few good assessors in the state—we say a "few" for the lack of a general term that expresses a lesser number.

The impression seems to be gaining ground throughout the state that we have a "single tax" system, and that personal property is exempt from taxation, and, inasmuch as real estate is compelled to bear the burden, it is the privilege of the owner and the duty of the officials to connive to list all property at a very low figure. In the matter of personal property no witness testified that the assessor claimed to have assessed it fully, or that the owners had intended to give it in at its worth. In substance, they contend that it is not given in anywhere, and excuse themselves on the ground that it is a matter of perjury or poverty, and exercise their right of choice.

The result is that after the number of lists that the assessor arbitrarily increases is added to the number that the county board of supervisors raise, there remains about ninety-five per cent. of the people in the state who fix the sum themselves upon which they are willing to pay taxes, and it is a safe assertion that ninety-nine per cent. of that ninety-five per cent. are not inclined to pay a great amount.

From the testimony of the average witness who appears before this board, there is very little good land in his section of the state, and what is there is mainly in adjoining coun-

ties; in his particular county there is a poor streak extending the length and width of the county from which all the timber has been cut and marketed; the process of erosion has carried all the fertile soil into the Gulf of Mexico; that a peculiar and unprecedented condition exists in regard to the bottom lands in his county, unlike the conditions along most streams that enrich the land, but the current of the stream changes and washes it away, and if by accident there is a deposit, it is always of sand, that destroys its future productiveness; that there is here and there an occasional oasis of small area upon which the tireless farmer can eke out an existence, and, by the condition of a small mortgage, pay his taxes.

The cities do not labor under exactly the same difficulties, but their difficulties are just as difficult. It seems that in all the cities the railroads have secured quantities of land for terminal facilities that are withheld from assessment; in addition to which, the smoke, noise and dust has destroyed the value of property for blocks on either side. Schools and churches have also acquired valuable property which is exempt from taxation; this also lessens their totals. The money in banks is owned by non-residents, country banks and the federal government. The remaining few dollars left among their citizens is mainly for the purpose of street car fare. Business has been removed from the principal streets and is yet unlocated. In fact, the city would go into the hands of a receiver if there were anything to receive or anybody who would receive it."

A friend of mine who was chaplain of our state penitentiary, told me recently of a Thanksgiving service which he held in the colored department of the prison. He said that he tried to induce them to give expression to their gratitude and the reason for it. One said he was thankful because his term would be out soon and he would be a free man before Christmas. Another old darkey said, "I's thankful that although I's been in the penitentiary three times straight hand-runnin', I's never lost my 'ligion yet." It occurs to me that this is more than the average taxpayer who is assessed and taxed under the general property tax system in any state can say, because I doubt very much if he can live under the system, as ordinarily administered, three consecutive years without losing his " 'ligion," the temptation to prevaricate being too strong to resist.

I sincerely trust that the day is not far distant, when this great problem shall be satisfactorily solved and a system of taxation may be found adapted to the needs of each state, so that the taxpayers therein, rich and poor, shall each bear his part of the public burden. Although this may be Utopian, it is at least the end to which we should dedicate our best thought and services and it is the goal for which we are striving in Kentucky.

WORK OF THE NEW JERSEY TAX COMMISSION

BY FRANK B. JESS

Member of the Commission to Investigate Tax Assessments

New Jersey is distinctly a progressive state. During the last few years it has dealt in thoroughgoing fashion with some of the most important problems that modern social and industrial conditions present for solution. It has, for example, written upon its statute books, a comprehensive civil service law, a law for the effective control of public utilities, a drastic corrupt practices act, a direct primary act applicable to all elective offices and including a presidential preference primary, and a model workingman's compensation act. While it has been busy in drafting and perfecting these measures of great public concern, it has not neglected the vital problem of taxation. Activity along this line has been mainly directed to the end of improving existing methods of assessment rather than proposing experimental changes in the substantive law. There has been considerable discussion of fundamental questions of taxation, but the interest of those officials charged with the administration of the tax laws has been confined chiefly to the problem of making more effective and equitable the existing system. The general basis of taxation in New Jersey is fixed by the constitution, which provides that property shall be assessed under general laws, and by uniform rules according to its true value. The state's scheme of taxation necessarily is framed in accordance with and limited by this fundamental requirement. In its reports to the legislatures of 1911, and 1912, the board of equalization of taxes strongly recommended radical changes in the methods of local assessment. The board was fortified in these recommendations, by the fact that in essential respects they were similar to those submitted by the committee on administration of tax laws to the tax conference held at

Richmond last year. Substantially the suggestions were that each county should be the unit for the purpose of assessment, that the assessments should be made by an appointive county board with the aid of field assistants employed at adequate salaries. A bill was prepared and introduced which extended the powers of the present county boards of taxation, abolished the office of local assessor, and required the assessments to be made by the county boards with the assistance of deputies appointed from civil service lists. The supervisory control of the county boards over the city boards and their jurisdiction to hear appeals in the county, were continued. The state board was given power to remove members of county boards for inefficiency or neglect. The bill provided that every district should be required to furnish a tax map, and that standards or units of value for public service corporation property should be furnished by the state board to local assessing officials.

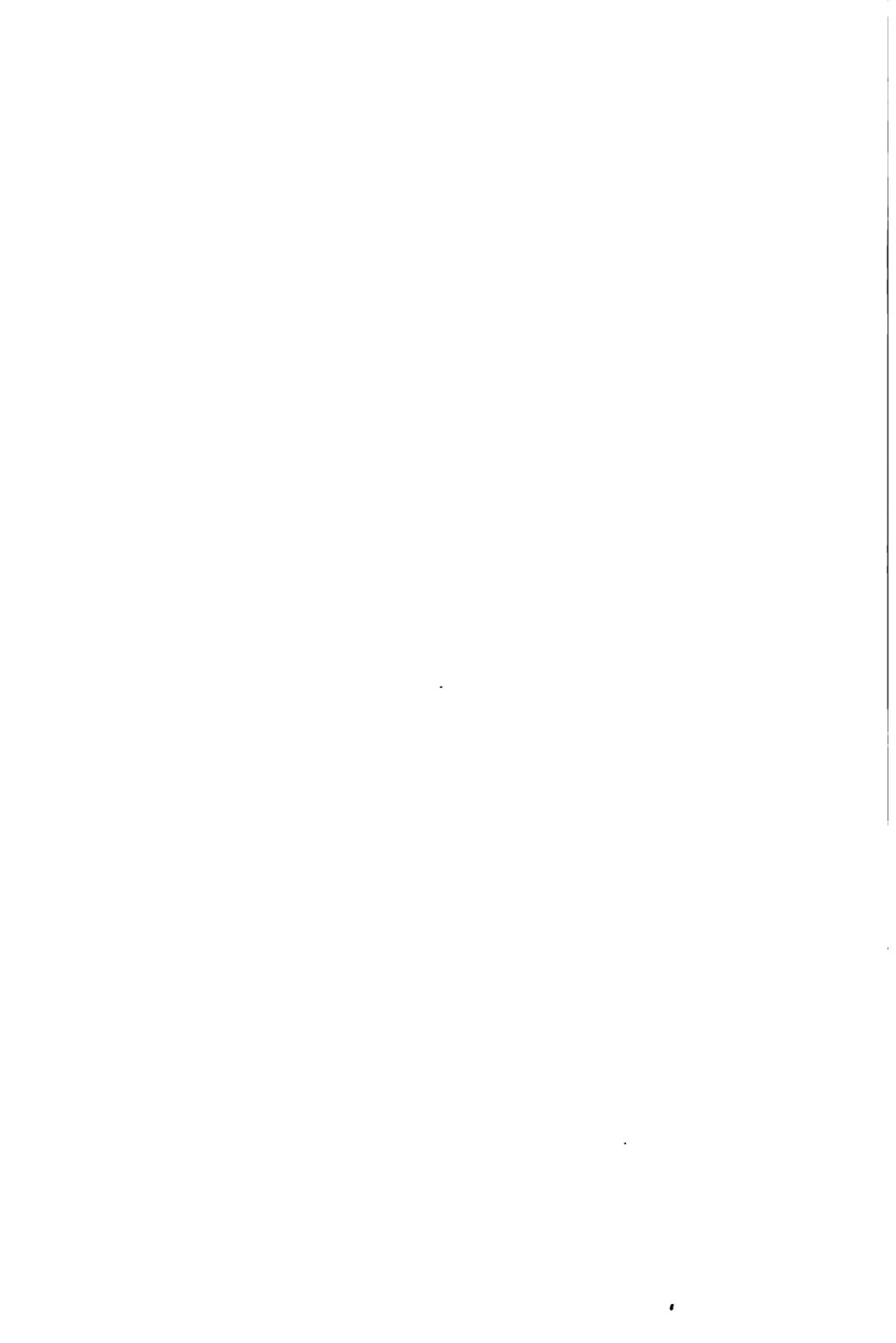
There was considerable opposition to the bill because of the radical character of the changes proposed which had not had much general discussion. The bill was amended in important features, and passed the senate, but failed in the house. Then it was generally agreed in the legislature that instead of enacting this measure in its modified and amended form it would be better to appoint a commission to investigate the methods of assessing property for taxation, and recommend such changes as might be deemed advisable. Such a commission was provided for and consists of Senator Carlton B. Pierce who drafted and introduced the bill already described, Assemblymen Albert R. McAllister, who has taken an active interest in the matter, Mr. A. C. Pleydell, whose work in tax-reform is known far beyond New Jersey, Mr. Thos. B. Usher, former secretary of the state tax board and an authority on assessment methods, and Frank B. Jess, president of the board of equalization of taxes.

The commission began its work by sending to all local assessors a list of questions bearing upon the methods actually employed for the assessment of property, and about four hundred of these have been returned. They show a general absence of tax maps and of proper records. The

commission is directed by the resolution creating it to give a public hearing in each of the twenty-one counties, and already has held hearings in eight counties. At these hearings there has been a striking unanimity of opinion in favor of the following propositions: That the assessing district should be large enough to employ for his entire time, and adequately compensate at least one assessor. That assessors should be appointed rather than elected and should have a tenure terminable only for cause; that tax maps should be made mandatory in each taxing district; that units of value to be established by a central state authority, should be furnished to local assessors as guides in the assessment of public service properties.

While the New Jersey commission is not directed by the resolution creating it to deal with questions of substantive law, it already has received several important suggestions involving radical changes in the basic system. One of these suggestions was that the taxing power be extended to reach the increase in value of unimproved land as evidenced by the difference between the price paid by the owner, and the price received on the sale of the property. The object of the proposal is, of course, to exact for the public, a portion of the unearned increment. The plan is not the idea of a visionary or an extremist, but is brought forward by an eminently sane and sensible lawyer, business man and legislator, who himself owns considerable property of the kind that would be affected by his proposed method of taxation.

In conclusion, Mr. Chairman, I want to say that all that I have heard in these reports that have been presented, particularly by the different tax commissions who are investigating this subject, has absolutely confirmed me in the belief that I have entertained for a number of years, that the greatest difficulty that we have in the matter of taxation is the difficulty that surrounds the method of assessment and the method of administration. And I believe that no matter how good your system is, how good your methods may be, that unless you have a proper and efficient administration of your tax laws that you will never even approximate a system that will be at all satisfactory to the taxpayer or to the government.



THE WORK OF THE SPECIAL TAX COMMISSION INVESTIGATING CORPORATION TAXATION IN CONNECTICUT

BY WILLIAM H. CORBIN

Tax Commissioner, Hartford, Conn.

Mr. President and Gentlemen of the Conference: I regret very much that Judge Walsh was called away unexpectedly last night and is not able to appear as chairman of this special commission which is considering some questions in connection with the taxation of certain corporations in Connecticut. I will attempt, very briefly, to mention one or two of the problems which this commission is confronting, and also a little of the history in connection with its appointment.

We have, as you know, in Connecticut the New York, New Haven & Hartford Railroad Co., which practically controls the railroad business of the state and eventually may control that of New England. Connecticut taxes railroads on the value of the shares of stock and the funded and floating indebtedness as representing the total value of the property owned by the corporation. There is absolutely no local taxation of lines, buildings, equipment or anything of that kind. All property used for railroad purposes is entirely exempt.

The New York, New Haven & Hartford Railroad extending through several states, owns property included in that valuation which should, of course, not be taxed in Connecticut. Therefore, the statute provides that there may be deducted from this total valuation of the shares of stock and funded and floating debts (which was over \$471,000,000 in 1911), amounts of the value of the capital stock and funded debt invested in railroads outside of the state, and also amounts invested in railroads and trolley lines which are otherwise taxed in the state of Connecticut. These deductions in 1911 totalled about \$259,000,000.

The statute provided originally that when a railroad had purchased a trolley road or any of its stock, which paid taxes to the state, the amount invested in that stock could be deducted, because that road paid taxes to the state. This seemed to be a fair proposition. The New Haven road several years ago bought nearly all of the trolley lines of the state by buying the stock. The amount thus invested in the stock of these companies was deducted from the assessed valuation for the purposes of taxation. It was later decided it would be advantageous to merge all these trolley companies into the name of the New York, New Haven & Hartford Railroad Co. Up to this time they had been known by their separate corporate names. So in 1907, our legislature merged, or granted the privilege of merging all of these roads into the one corporation of the New York, New Haven & Hartford Railroad Co.

The deductions which have been previously enjoyed because these roads had been taxed as individual corporations to the state then terminated. The road could not say, "Under the statute we would like to deduct the amount of investments in the capital stock of these other roads which are paying taxes to the state separately," because they were merged. They lost their separate identity and disappeared as individual roads all over the state and the New Haven road came up like a man and paid its taxes upon the total cost of all that property, as represented by the stock and bonds which had been issued for the purchase of the same. The full tax was paid for four years in this manner. There was no claim of double taxation, nor of over-taxation in any way.

After a while the demands of the interstate commerce commission for reports were such that the business of intrastate trolley roads which were merged in and a part of a railroad corporation doing an interstate business had to be included in the data which was furnished to the commission. For reasons not known to me, it seemed advisable to the railroad company to sell all of their trolley lines to a corporation known as the Connecticut Co., which heretofore had simply been an operating company for these trolley roads,

and thus to take them out of the ownership organization of the railroad company. The capital stock of this operating company was increased from \$25,000 to \$40,000,000. The New Haven Road bought this new stock at par. The Connecticut Co. then is no longer an operating company but an ownership company, having bought from the New Haven road nearly all of the trolley roads of the state at a cost theoretically of \$40,000,000. Now, this Connecticut company is required to pay a tax to the state upon the value of its stock, all of which is owned by the New Haven road, and none of it on the market, and the latter, although it is supposed to have paid par, claims that the stock for taxation purposes is worth only sixty.

The railroad company then said: "We now wish to deduct the amount previously invested in these individual trolley roads in this state from the total of our capitalized value here, because the Connecticut Co. now pays a tax to the state." During the four years preceding the time of merger the tax had been paid on the securities issued for the purchase of these individual roads without any complaint. Having sold out these roads there were no additional securities issued for the purchase of the stock of this particular Connecticut Co. It had apparently been purchased by a transfer or exchange of the tangible property for the shares of stock. The separate companies had all previously been merged with the railroad company, and now this Connecticut company was enlarged to separate them again. But the road said, "Here is a double taxation and we are paying about \$250,000 more than we ought."

To be relieved of this a bill appeared in the 1911 legislature which provided that, "Every railroad company, any portion of whose road is located in this state, or if such portion of such road is in the hands of a trustee, or receiver, then such trustee, or receiver, shall, in addition to the other matters required by law, specify in its annual return for the purposes of taxation all the property held by it (other than its railroad and its franchises and its real estate in this state not used for railroad purposes), and also, if possible, the amount of its capital stock issued for, and the amount of its

funded and floating debt occasioned by the acquisition of such property, and if this is not possible, the actual cost of the acquisition of such property. In order to obviate a direct or indirect double taxability of such property, the amount of its funded and floating debt thus occasioned, and the amount of its capital stock thus issued, or where these are ascertainable, the amount of such cost, shall, in computing the amount of tax to be paid by such railroad company, trustee or receiver, to this state, be deducted from the total amount of its funded and floating debt and capital stock; provided, that the board of equalization shall have power to inquire into the correctness of any return made under the provisions of this act, and, if after hearing the parties in interest, it shall find such return to be incorrect, it shall correct the same in accordance with the facts before computing the tax to be paid in accordance therewith."

In the hearings before the legislative finance committee, the road did not claim to have issued any stock or bonds for the purchase of the stock of the Connecticut Co., but claimed that they had previously issued certain amounts for the purchase of the individual roads, and therefore the bill provided that they could deduct the value of the stock in the Connecticut company as representing the original cost of the separate roads which they had purchased, although for four years under the merger this deduction had not been allowed or claimed. The bill proposed permitted a reduction of \$250,000 in the taxes over those of the previous year.

We maintain that a railroad in the state of Connecticut should be treated fairly under the present laws; that it should be taxed upon its property only once, and on an assessed valuation which is approximately equivalent to the actual worth of the property, so far as it can be determined by the stock and bond method, with proper deductions, at a reasonable rate of one per cent. There had been prepared just previously by the commission of the state of Massachusetts a detailed inventory valuation of all of the property of the New York, New Haven & Hartford Railroad Co. Professor Swain of Cambridge, and this commission, had determined that the value of the entire physical road was a

certain amount. By taking this total value of the physical property, without including the value of good will or anything intangible, and apportioning the value to Connecticut on the present statutory basis of the single road mileage, which allows four tracks of road between New Haven and Woodmont as single road in the numerator of the fraction to be offset in the denominator by a single track of branch road in Massachusetts or Rhode Island; and by using this unfair method of apportionment, at a ten mill tax,—the rate under the stock and bond method and probably a fair rate in Connecticut on full value—the road was not paying, under the present system, including the \$250,000 which was claimed was double taxation, as much by several hundred thousand dollars of the amount, based upon Professor Swain's report as apportioned. It did not seem therefore that there was any double taxation of the road on account of this particular manipulation of the Connecticut company.

As an antidote to this bill offered by the road, another bill was introduced providing that this entire matter be referred to a special commission to investigate the taxation of the New York, New Haven & Hartford Railroad Co., and to report to the next legislature, and if any double taxation should be found that an adjustment of the same be made as of 1911.

The present statute provides that a railroad company may deduct from the total valuation of its securities the value of the stock which it owns of a steamboat company which conducts a line of steamboats in connection with said railroad company. The New England Navigation Company owns steamboats and marine equipment to the value of about twenty millions of dollars, and has a capital stock of between sixty and seventy millions of dollars, all of which is owned by the New York, New Haven & Hartford Railroad company. This railroad therefore deducts the value of all of the capital stock of the New England Navigation Co. from its total assessed value, on the ground that it is a company conducting a line of steamboats. But included in the assets of the company is about forty millions of the stock of the New York, New Haven & Hartford Railroad Co., together with that of

certain power companies and various other corporations that have been thrown in there under the guise of a navigation company, all of which increases its capital stock.

Now all of these facts needed to be considered by a commission. The railroad company apparently decided that it could not forestall the passage of the resolution relative to the commission and that it would be better to have both bills passed. A substitute bill was finally adopted, section one of which was the railroad measure providing for the large reduction of the tax without waiting for the report of the commission, and section two was the commission bill, changed to include all corporations paying taxes to the state, as follows: "Within sixty days after the passage of this act, the governor shall appoint a commission of three disinterested persons to examine into the system of the taxation of railroads and street railways located partly or wholly within this state, and also of all other corporations paying taxes to the state, and the statutes relating thereto, and to make such recommendations in connection therewith to the next general assembly as shall seem to them advisable. Said commission shall serve without compensation," etc.

Governor Baldwin appointed as members of the commission, Honorable John J. Walsh, Professor Fred R. Fairchild, and the tax commissioner.

In addition to the taxation of railroads, telegraph and telephone companies, savings banks, national banks, insurance and trust companies, mutual fire and life insurance companies, and express companies are also being considered.

We have been very much interested in our work and study during the past year. Many hearings have been held; representatives of all of the corporations have come before us; and we are approaching the time when our recommendations must be submitted. We feel that we have a hodge-podge of a system for taxing public service corporations in Connecticut. There is one method for railroads, known as the stock and bond plan, and with the growth and expansion of the road and the multiplicity of the deductions and the unfairness of the method of apportionment, it seems to be one of the worst systems in its administration that there is any-

where in the country. With that basis for the taxation of railroads, the local telephone companies, i. e. the Southern New England as the largest local telephone company, for every transmitter in the state are taxed on an arbitrary basis of one dollar and ten cents for every transmitter. The tax might be one dollar and fifty cents, two dollars, or fifty cents for there is absolutely no reason for the amount except that somebody suggested one dollar and ten cents and the telephone company acquiesced.

Then we tax Mr. Holcomb's company, the American Telegraph & Telephone Company, at the rate of thirty-five cents per mile of wire. It was twenty-five cents per mile of wire in 1910, but a rural legislator introduced a bill changing the rate and with the graceful consent of the company it was jacked up to thirty-five cents. There is no reason for making this rate thirty-five cents for a mile of wire any more than fifty or sixty cents. It is simply because the state wants some tax from the American Telegraph & Telephone Co. We tax telegraph companies, including the Western Union, Mr. Whitney's company, on a similar basis. We tax the interstate express companies five per cent. on their gross receipts in the state, with no deduction whatever. We tax local trolley express companies two per cent. on their gross receipts. We have another system for taxing banks and insurance companies, and gas, electric and water companies pay no taxes whatever to the state.

What the commission hopes to do is to report some plan which will be approximately consistent, and for which there will be some justification; possibly the gross receipts basis, or something of that idea worked out with an apportionment plan fair to the corporations and also to the state.

The representatives of the New Haven road had been very courteous in attempting with us to solve this problem of devising some fairer and more easily administered way of taxing this big corporation. We told them if they would think for a moment that it was possible in the state of Connecticut to have a commission whose sole object was not at this time to largely raise the taxes of the road but to devise a law which could be administered on a fair basis and in a reasonable way,

then it might be possible for us to do business. One of the vice-presidents apparently took us at our word, and he has recently given us some very interesting data relative to gross receipts.

The estimated figures submitted show that over one-half of the total gross receipts from the New York, New Haven & Hartford system, which includes all of their leased roads, is in the state of Connecticut. This total for the year ending June 1912 was over \$67,000,000. What we want is some basis of apportionment, either of track mileage, or car mileage, which will be fair, and easily administered at a rate which will give to us approximately the tax we are getting now. It will then be possible for the three members of the board of equalization, consisting of the treasurer, the comptroller, and the tax commissioner, who might be three politicians, to administer that law just as it is and not in accordance with the hypnotic influences of corporation lawyers.

THE CHAIRMAN: How did the track mileage compare with the gross receipts?

MR. CORBIN: The vice-president also submitted a table relative to different apportionments of mileage, based upon miles owned and operated with and without sidings and terminals. The mileage in Connecticut owned is about sixty per cent. of their entire system. But the difficulty in using a mileage owned basis is that it would be necessary to determine the gross receipts from their owned tracks in separation from the total owned and leased, which, of course, would be difficult and require an expensive clerical force to compute. This cannot be confirmed or checked up by the reports of the interstate commission.

The mileage in Connecticut controlled, leased, and owned, including sidings is about forty per cent. of the entire system. We are simply trying to get a per cent. tax, which is reasonably fair. New Jersey is a little higher in the average tax per mile, and there is one state which is about the same, and then Connecticut, showing that we probably get about as much per mile as similar states, which I think is entirely fair and due to the physical property values and the congested system. If we are simply aiming for approxi-

mately this same tax, all we have to do of course is to decide on one of these methods of apportionment and the necessary rate. It seems to me that the controlled, leased, and owned mileage, including sidings in Connecticut is fair. This would be about forty per cent. of the sixty-seven millions, or twenty-seven millions as against thirty-four, which the vice-president found to be the estimated gross receipts in the state of Connecticut. The rate necessary to bring in about the same tax as now, which last year was a little over a million and a quarter dollars, on twenty-seven millions as our proportion, would be a gross receipt tax of nearly four and three quarters per cent., which is not an exorbitant tax as compared with the rate in other states, using this method.

I wish to make a brief statement of the apportionment under the present system, which is so rank. I want you to see how it works out. The basis is that of the owned miles of road in the state of Connecticut. There are four or five tracks between New Haven and the New York line. The numerator of the proportion fraction is made up of the miles of road in Connecticut. The denominator is made up of the total miles of road owned in Connecticut, Rhode Island and Massachusetts. After the original law was passed it was amended to provide that the mileage of any branch line in the state whose average value per mile is less than one-fourth of that of the main line road, should be deducted from the total miles of road owned in Connecticut, and that the value of such branches should be determined separately. This takes out of the Connecticut numerator of the fraction the mileage of the branches, but leaves in the denominator the miles of the branches in Massachusetts and Rhode Island. The road formerly known as the New Haven & Northampton Railroad has been merged with the New Haven road. In Connecticut it is considered a branch, and therefore the mileage in Connecticut is pulled out of our numerator, but the mileage of this branch line in Massachusetts is retained denominator. So the fraction which is used in determining Connecticut's portion of the taxable value of the securities of the road has these special deductions from the numerator, while the denominator includes similar lines in the other

states. It is absolutely unfair and it cannot be justified. Governor Bliss, with his hypnotic influence, finally got this same railroad company to agree to the all-track mileage basis of apportionment of the tax in Rhode Island. The vice-president told us just the other day that he thinks that perhaps the best method of apportionment after all is the one used in Rhode Island. I have been trying to get them to agree to this for the last four or five years, and the present attitude is encouraging as it seems as if there may be a probability of our getting together on some form of generally approved method of taxing the railroads in Connecticut.

MR. NILS P. HAUGEN (Wisconsin): I would like to ask a question as to how you arrive at the true value of the stocks and bonds. Do you take the true value at a particular time?

MR. CORBIN: The average of the twelve months.

MR. HAUGEN: Doesn't it show very severe fluctuations every year?

MR. CORBIN: Yes, and when the New Haven road took over the Boston & Maine the stock dropped decidedly. Of course, the value of the New Haven road stock and the assessed valuation for taxation purposes in Connecticut are related, and they are affected in the same way.

MR. HAUGEN: We have used an average in arriving at it, for instance, net earnings for five years, and an average of the stock and bond valuation for five years. We have used the average value of real estate for the five year period. We think you arrive at more accurate and more stable results in that way.

MR. CORBIN: The road pays eight per cent. on its stock. Several years ago the stock was worth above 190, which is a reasonably fair value for a strong investment at eight per cent. Last fall the state board of equalization determined the value to be 142½, and the physical property in Connecticut has appreciated and not depreciated in value in the meantime.

THE SPECIAL TAX COMMISSION OF DELAWARE

BY GEORGE W. SPARKS

Secretary Delaware Tax Commission, Wilmington, Del.

Mr. Chairman and Gentlemen of the Conference: When first approached by the officers of the association to read a paper telling of the experiences and successes, likewise the troubles of our commission, it was with reluctance that I accepted, feeling that owing to the geographical situation and other peculiarities of our little state of Delaware there was but little of value that I could tell you, preferring to sit and listen as has been my custom for some years past to the papers of those from larger states and profiting by their experiences. But if there is anything that we have accomplished that is of interest or value, I give it to you for what it may be worth.

In referring to the peculiarities of our geographical situation and condition, would state that we have but one municipality within the state, of a population exceeding seventy-five hundred. That is the city of Wilmington, located at the northern border of the state, with a population of approximately one hundred thousand. There are a few enterprises of considerable size located throughout the state, but roughly speaking the entire enterprise of the state of Delaware, other than that in the city of Wilmington and the few others previously referred to, is of an agricultural nature. There is no ingress or egress to or from the state except at the extreme northern border, but by water. The consequence is, that the public utility companies jump in and jump out of the state almost before you know it, and most any charges, taxes or levies that might be made which are common to other states would find us interfering with interstate commerce.

There is strictly speaking no tax levied by the state of Delaware upon its own people. There is no such thing as a state tax assessor or collector. The revenues of the state are largely received from licenses, which I presume you would say are tantamount to taxes, and which are frequently confused by

our people in speaking of them as such, but are in reality licenses.

We have a few taxes for state purposes levied upon public service corporations and on companies chartered within the state, but if fifty per cent. of the capital invested, in companies other than public service, is located within the state, they are exempt from taxation; consequently it resolves itself to the fact that only corporations doing business without the state and incorporated by the laws of the state of Delaware are amenable for tax.

Such a thing as tax on land for state purposes has never been known within the state, nor will it ever be so long as the agricultural interests control the general assembly of the state. Neither is there any tax levied for state purposes on personal property or upon investments or securities. Such is our condition as to revenue, but notwithstanding this we are required to maintain in all its dignity the full government of a sovereign state, the same as the great states of Texas, New York or California.

The greatest revenue that we derive from any one source is from what we commonly know as our charter mill; which pays the state approximately \$155,000.00 per annum. Our laws are so liberal and the rates so low, as compared with other states, that we are at this time in high favor with the corporation lawyers of the country. The entire cost of procuring a charter for a concern of \$100,000 capital, amounts to but \$22.50, with an annual tax thereafter of ten dollars. Should the federal government pass a federal corporation law, as has been agitated for some years past, it will be necessary for someone within the confines of the state of Delaware to scrape and scrape hard for sufficient revenue to maintain the state, and it might be under those conditions that a tax on land, as is levied in most other states, could be obtained, as it would probably be inevitable.

The Delaware state revenue and taxation commission, of which I have had the honor to be a member and the secretary since its inception in 1907, was created for the reason that our then governor, who was strictly a business man, realized that the tax laws of the state were in a horribly chaotic condition,

being un-uniform, contradictory and ambiguous, and suggested that a commission be appointed to investigate and recommend such changes as might be advisable to the then next session of the general assembly. An act was drawn, providing for a commission of nine, three of whom should be appointed by the governor, three of whom should be members of the senate, and the remaining three of the house of representatives. The bill was passed, the commission appointed and has been reappointed twice subsequently without change, other than the filling of vacancies incidental to death and one resignation; the commission practically remaining as it was in its inception. In this commission we had represented the legal profession, manufacturers, medical profession, agriculturists, and financial interests. Politically it is bipartisan and about equally divided. The closest harmony has existed since its organization, and recommendations made have been unanimous, with the exception of one or two instances, and in every instance where they were unanimous, the recommendations made were enacted by the general assembly. The work of the commission for the first two years of its existence was confined to the topics of steam railroads, brewers, liquor, foreign corporations and manufacturers licenses. That of railroads was probably the most serious and most troublesome.

Our then and now law requires that railroads should pay, first a tax of ten cents for each passenger carried, let the distance be what it may; further ten per cent. of their net earnings; also one hundred dollars for each locomotive, twenty-five dollars for each passenger car, and ten dollars for each freight car and truck. Again, one-half of one per cent. on the capital stock of the company. Such a law as you may see was bad for railroad operation, as well as to the collection of the tax, and in order to adjust the matter the legislature commuted the law by fixing a given sum to be paid by each respective railroad operating within the state. This was one of the peculiarities this commission struck. We solicited advice from persons experienced in the tax laws generally of the country, and were given most valuable and appreciated advice by the Hon. Lawson Purdy of New York. They one and all, after deliberation, said, "let it alone." "Your conditions

are most peculiar." We let it alone, but increased the amount levied by commutation some thirty per cent.

The brewers were paying practically nothing to the state. We made a recommendation that they should render to the state authorities duplicates of their federal reports, and levied a tax of five cents per barrel of thirty-one gallons, thus increasing their payments to the state from about three hundred dollars to sixty-three hundred dollars. We recommended that the cost of a retail liquor license should be doubled and worked assiduously to this end, but regret to say that to this time it is one of the few suggestions recommended upon which we have not secured enactment. We are hoping for it at the coming session of the general assembly.

Our next important subject was the licenses of manufacturers. We understand that this is rather an unusual law, and that but very few states have enacted it. With us there has been little or no objection to the payment of a manufacturers license, but our law has been so ambiguous that they did object to that. Also, many tax dodgers have perjured themselves knowing that there was but slight possibility of the state authorities discovering the crime. To this end we recommended that a state revenue collector be appointed whose duties it might be to investigate such conditions; also that the manufacturers license law be simplified. We thought we had accomplished this. It is perfectly clear to us, but every lawyer who is called upon by his client seems to be able to find a different interpretation, and at the coming session of the legislature, we will recommend and fully expect to have passed an act repealing the entire present law with all its verbiage, and have enacted a short and concise law stipulating that they shall pay a license based on one-twentieth of one per cent. of their gross receipts. There has yet to be the first objection made to this enactment, and while it may be as previously stated unusual, it meets with favor in our community.

We found the most difficulty, owing to the embargos of interstate law, to reach a just way by which the telephone companies could pay a greater tribute. The old method, and the present one in fact, is based upon the miles of lines in operation. We did not deem it just to change this as some lines

were paying all they could carry, while others could justly pay more. A great portion of the business being interstate, we could not reach them. So we copied the plan of the state of Connecticut, and fixed a tax of twenty-five cents on each transmitter.

In the judgment of the commission, telegraph companies had suffered such a diminution of profit through the growth of the use of the telephone, that we could not in justice add any greater amount to their taxation.

Our law covering express companies provides for a tax of five per cent. on the gross earnings of their intrastate business, and as a large portion of their business is interstate, we imposed an additional sum of two hundred and fifty dollars for each company doing business within the state, same to be collected in the form of a license.

Notwithstanding our peculiarity of receipts, our obligations as to liabilities incurred through the before-mentioned requirement of maintaining an entire state government in a territory but one hundred and ten miles long and about thirty miles wide, the state of Delaware is in good financial condition. Her total receipts approximate \$950,000. It is unnecessary to say her expenditures are about the same, but notwithstanding this, the state of Delaware can show with pride gross assets of \$1,600,000 as against liabilities of \$770,000, having an equity of \$900,000. This equity is invested in good securities and is used specifically for the public school fund, and the income speaks well for the investors, as the income accruing averages six per cent. This does not alone maintain our public school system, as the state makes a liberal appropriation of some \$150,000 in addition to the sums paid by the various cities and incorporated towns. Our school laws and incidentally our school tax laws are in a generally worse condition than the tax laws of the state, and a separate commission is now at work to perform the same services for the state in that regard as our commission has performed for the general fund.

In addition to the very important suggestions above mentioned, our commission presented some forty or fifty recommendations of a clarifying nature. Almost all of these were enacted as per our recommendation at the first session to which we made report.

The early portion of the second term of our organization was devoted to the reconsideration of such measures as failed of passage at the preceding session, and they were almost entirely enacted by the next succeeding session.

We then proceeded to the consideration of amusement licenses. Many forms of amusement had arisen in trolley parks, moving pictures, etc. that were not specifically enumerated in the law, and were dodging their proper tribute to the state government. We recommended and secured the passage of an act on this subject. Our county government realizing the benefit we had been to the state required that to our study of state taxation should be added that of county taxation. We devoted very considerable time to this matter, securing the enactment of several things unnecessary to mention. If we had done nothing else, we had a law passed appointing comptrollers for two of our counties which were without them, and the amount of money saved and the general financial improvement of the condition of these counties, have been marvellous. The first comptroller appointed to one of our counties, namely Sussex, made such a mark that he has just been nominated as a candidate for congress by the dominant political party of the state.

The third, or present term of our organization, while it has been a busy one, has been devoted almost exclusively to a settlement of the manufacturers license previously referred to, and an effort to harmonize the feelings of those engaged in the liquor business, those opposed to the sale of liquor and those endeavoring to get a just revenue for the state, in order that we may recommend a bill to the coming session of the general assembly that will meet with as little opposition as possible, and at the same time require the liquor trade to pay a just tribute to the government of the state.

The foregoing may not seem as though our commission has accomplished a very great deal, but nevertheless the increases from receipts have amounted to an additional ten per cent. of the gross receipts of the state, much simpler laws and all accomplished without any clamor of oppression from the subjects affected, and I assure you that it has taken a great deal

of time particularly as our commissioners are all men busily occupied with their individual duties and have practically contributed their entire services to the state in this regard. The appropriation made by the state amounts to but fifteen hundred dollars per annum to pay counsel fees, stenographic and clerical services, and the secretary is selected from the body in order that there may be no fee in that direction.

EIGHTH SESSION

THURSDAY AFTERNOON, SEPTEMBER 5, 1912

ROUND TABLE

CHAIRMAN, WILLIAM B. FELLOWS

Member New Hampshire State Tax Commission

DISCUSSION OF ADMINISTRATIVE PROBLEMS

CHIEF TOPICS

- 1. ADMINISTRATIVE PROBLEMS IN A STATE UNDER A TOWN FORM OF GOVERNMENT.**
- 2. ADMINISTRATIVE PROBLEMS IN IDAHO.**
- 3. ADMINISTRATIVE PROBLEMS IN OREGON.**
- 4. ADMINISTRATIVE PROBLEMS IN WASHINGTON.**
- 5. ASSESSMENT OF RAILROADS.**

DISCUSSION OF ADMINISTRATIVE PROBLEMS

Thursday, September 5, 1912. 2 P. M.

MR. WM. B. FELLOWS OF NEW HAMPSHIRE PRESIDING PROBLEMS ENCOUNTERED IN ESTABLISHING CENTRAL SUPERVISION IN A STATE UNDER A TOWN FORM OF GOVERNMENT

MR. LAWSON PURDY: Gentlemen this afternoon we have the round table discussion. It will be lead by Mr. Wm. B. Fellows New Hampshire, member and secretary of the New Hampshire state tax commission.

CHAIRMAN WM. B. FELLOWS (New Hampshire): I have been impressed by three or four expressions made by as many different people at this conference. The first was by Governor Carroll on the first day, when he said that if there is to be a correct assessment for any one year it is necessary that the assessment be made correct at first. It is nearly impossible, he said, to get a correction by the original assessing officer—to get him to act differently in making a re-assessment.

The program for this afternoon suggests the topic "Problems Encountered in Establishing Central Supervision in a State under a Town Form of Government." The problems are entirely administrative. The town form of government prevails very largely all over the United States, and more particularly in the New England states, and perhaps fully as much in New Hampshire as any other state. Selectmen, as they are called, are chosen annually by the voters of each town and the assessing power is entirely in their hands. I am inclined to think that it should be so in the first instance. They are people who have lived in their townships nearly all their lives. They know all local conditions. A person who does not live in any one of those towns cannot appreciate the local conditions.

I am going to relate a little experience of my own two or three weeks ago. I drove eighteen miles into a township that

is fifteen miles from a railroad on one side and six the other. I drove up hill all the way going and up hill all the way returning. It is a beautiful town for summer residence. I found there buildings such as we have in New England, nice little homesteads, painted, blinded, nice barns, a little field back of each. Everything looked as pretty as a picture; but you can hardly give one of those places away. I asked, "What is this place assessed for?" I have one particularly in mind. The owner said, "Sixteen hundred dollars." He had a story-and-a-half house, painted nicely, a two-story building next to it that was painted, in the lower story was a store and the upstairs tenement was occupied. A good barn was connected with it. He had two or three acres in one place, and an acre or two somewhere else, and the whole was assessed at about \$1,600. That looked low to me, and I told him so. He said, "I paid \$1,300 for it only a short time ago. I probably couldn't sell it for that if I wanted to." A stranger would think at first the place was worth much more.

For two or three months we have weather like you are now having in Iowa. There is a beautiful lake and village in this town. In the three months in summer conditions are ideal. Usually the latter part of September nearly everybody goes away. Of course a few people remain. They find little to do by which to get a living. A tax commission was appointed two years ago, with power to supervise the work of the selectmen and order re-assessments if advisable. We say to the selectmen of a town, "Re-assess the property." They reply, "We will reassess, but we will assess at the original figures. We swore we had assessed at full and true value last April, and we are not going to swear to anything else now."

It all comes down to this question of administration, as was said here this morning. If the assessors "wilfully" refuse to change the original valuation they can be prosecuted on motion of the tax commission but you know, all who are lawyers, that it is hard to prove a man has "willfully" done a thing wrong. You may think that he has done wrong, but to prove the act "wilful" is a pretty difficult thing to do.

The next expression I noticed was made here this morning—I think by Prof. Brindley—that the assessment of a tax is not

by any manner of means an exact science. We all know that. It is illustrated by what I have been saying. To illustrate again; take the property of the late Mary Baker Eddy located near St. Paul's School in Concord, N. H., with which Mr. Purdy is acquainted. It is a nice place with a beautiful lawn, a nice set of buildings seventy-five acres of land with as good a view as there is on earth. Probably she laid out \$125,000 on it. The Concord assessors do not know what it is worth. No one can tell its approximate worth. The assessors will exercise their best judgment in the matter, and so they call it \$25,000 or \$10,000. They are just as likely to be out of the way in either case. There is no sale for the place. This merely illustrates that the assessment of taxes is not and cannot be an exact science.

Many of you know there is a little locality east of the Hudson river and some of you have been through New Hampshire without knowing it, because it takes a very brief time to go across the state from Boston to Canada. Some of you, fortunately, stayed a longer time, as Mr. Purdy did, and know something about the state. We have what is supposed to be the best summer hotel perhaps in the world. It is the new Mt. Washington House at Bretton Woods costing perhaps a million and a half dollars. It is simply set on the rocks. What is that property worth? There isn't a man in the state of New Hampshire rich enough to take it as a gift. Yet the local assessors must put some value on it for local and state taxes. The value must be at full value if they can get at it, so that the state tax may be fairly apportioned.

Then the third thing that attracted my attention was the statement made by the gentleman from Kansas that he could draw a line along the divisional county line, and on one side of the line there would be an assessment say of forty-four dollars an acre and on the other side seventy-five dollars an acre, and so on with similar variations. It would be impossible even for so bright a man as Mr. Holcomb, who has probably been in New Hampshire, to draw a line anywhere in the state where like conditions prevail on either side of the line. (Laughter.) I take it that is the condition in a number of states. It must be the condition in western Pennsylvania and West Virginia

and in all of the mountain states. And I shall hope to hear something from the gentleman here who has had interest enough in this subject to come from Idaho, taking two days to go from his residence to the railroad and then travel away down here—I want to hear what is done in Idaho. The selectmen when they go out there to assess his property probably do not have the same problem presented to them that they have in New Hampshire. In the latter state complaint is made because the assessment is made in the spring when the mud is deep. They say “We have put on our rubber boots and we have walked three or four miles to see every man.” If they had to walk eighty-three miles to reach the Idaho gentleman’s farm it would be a different proposition.

I would like to hear from the gentleman from Delaware who says the state taxes are obtained altogether from certain sources, the county taxes from other sources, and the local taxes entirely from other sources—I would like to have him explain what taxes are imposed on the property of the man who lives in any village or town and has a little farm, and perhaps a few hundred dollars of money loaned out, and a few horses and cattle. It was said here that New Hampshire and Pennsylvania are unique in this, the only property taxed is what is named in the statute books, and placed there by the legislature. That is true. I like the idea. You are not obliged to inquire what exemptions there may be, as is the case in most of the states where the constitution says everything is taxable except what the legislature may exempt. We are not interested at all in what exemptions the legislature provides. We are simply interested in what the legislature puts on the taxable list.

I have the inventory blank here which the individual property owner receives in New Hampshire and I will read the questions he is expected to answer. First, “Poll under seventy years old,” and that fortunately does not apply to women. The constitutional convention last spring did not grant woman’s suffrage any more than the people have just done in Ohio. The second question is, “What real estate was owned or held by you on the first day of April?” It reads on the blank, “Describe it.” Many of the owners will write in,

"Same description as last year." Or, "We are bounded on the north by John Smith, on the west by the highway, and the rest of the boundaries we don't know. We inherited the land and it has been in the family for a hundred years or 125 years. We don't know ourselves. You selectmen are chosen to go and find out. Now go and find out." That is about the description returned. (Laughter.)

"What portable mills were owned or held by you on the first day of April?" That refers to these vest-pocket mills cutting off the standing timber which our friend Prof. Fairchild was telling about the other evening. A man takes a portable mill and a team, goes out and buys a pine lot and cuts off the timber, and goes away. So we tax these portable mills.

Along the line of the taxation of timber, the people are saying if the timber is to be taxed at its full value it will be cut off. I personally have not been brought to feel that this will happen. Personally I cannot see any reason, when Mr. Purdy owns a house that may be worth \$5,000, which he can sell for \$5,000 in New Hampshire, and if I am fortunate enough to have a piece of growing timber that I can take \$5,000 for now, and a little more later, why I should have relief on that property any more than he should have relief on his \$5,000 house. But these experts on the timber situation seem to feel that some little different method of taxation ought to be applied. I do not know but what they are right, and at the constitutional convention last June we proposed to the people an amendment to the constitution which, if it is adopted, will permit the classification of growing wood and timber, and moneys and credits. That is as far as we felt we wanted to go at this time when the minds of the people are being unduly inflamed; and we are thankful we have a little constitutional restriction, termed uniformity in some places and proportionality in New Hampshire. If we were as stable as New York and Connecticut, or had Mr. Purdy and Mr. Corbin to frame the laws, we would not care whether our constitution was silent or not. We were willing to open the door a little for the classification of intangibles, and the classification of growing wood and timber. But I diverged.

Next the inquiry is how many boats and launches you have

worth over a hundred dollars. We haven't a great many. We have Lake Winnepesaukee and some other lakes, and somebody will go there and have a few good boats, may be worth \$125, so we tax them for the twenty-five dollars and exempt the one hundred dollars.

Then horses, oxen, cows and other neat stock, sheep, and hogs over six months old. That comprises live stock taxable. Two hogs over six months old exempt to each family. Then it is asked, "What number of vehicles, including automobiles, were owned by you on the first day of April, not including those whose aggregate value does not exceed one hundred dollars." If you do not have one hundred dollars worth of vehicles you are not taxed. If you have \$110 worth you are taxed for the ten dollars.

Then the person is asked how many hens he has worth more than fifty dollars. We have a few but not many. Then "stock in the public funds." That is an old expression and refers to municipal bonds. Then "What stock in banks and other corporations in this state?" That refers merely to national bank stock. The only stock of any corporation that is taxable in New Hampshire is the stock of our national banks. We do not go to the extent of double taxation the way they do elsewhere in taxing corporate stock. I think that is right. We tax bonds and other intangibles, but one can own corporate stock and not be taxed. This spring when it was announced that the laws were expected to be enforced and every person would be obliged to fill out the inventory, and swear to it,—and the tax commission made that announcement in January at the meetings of the selectmen for the purpose of telling them what the law was and what they ought to do,—everybody at once, or nearly everybody, swapped their bonds for stocks in corporations. Those who swapped for or bought the listed stocks have had opportunity to make a dollar. The result was but little increase in the amount of intangibles returned for taxation this year. I think last year it was about eight million, and this year about twenty million dollars. It was said that there was from fifty to seventy million dollars of bonds exchanged for stocks in New Hampshire. There is no way of knowing the amount. When we speak of a few million in New Hampshire,

or a few thousand, it looks awfully large to us. When we come out here in the great west and hear you people talking about billions we do not comprehend it.

"What amount of money had you in bank or elsewhere?" That is to say, what is the amount of your deposits in national banks, either drawing interest, or there as cash on hand. "What amount of money had you at interest more than you paid interest for?" An exemption was made in 1911 of notes secured by mortgages on New Hampshire real estate at a rate of interest of five per cent., or less, so one can own a New Hampshire mortgage note drawing five per cent., or less, exempt from taxation. The most of our municipal loans are exempt from taxation when held by persons in the municipalities which issue them, and the most of those are, of course, held locally, and they are in small amounts.

Then "What amount of money did you have in your pocket?" Now most of these various kinds of intangibles may be off-set by interest-bearing indebtedness. Of course the shrewd man heretofore has, if he owned some bonds, borrowed money and put these up as collateral and bought stock, and against his bonds and his taxable securities he swears off his indebtedness, and holds his stocks tax exempt. And he ought to have that privilege. "What was the average value of your stock in trade for the year ending on the first day of April, 1912?" A person may have nothing on hand on the first day of April and a good deal during the year prior, or he may have a good deal on hand on the first day of April and sell out during the year. It is the average value for the year that is taken as the basis for taxing.

The figures were practically completed as I left home the other day, and under the attempt this year to have the law fully enforced and everybody return the true value of property as they ought to, the increase throughout the state has been about \$110,000,000, or forty-five per cent. more than the valuation of last year. The average tax rate, instead of being \$2.10 on a hundred, as it was last year, will be about \$1.60 on the hundred. People have readily fallen in with this idea of returning their property at what they think is full value, and the assessors have actually, I think, attempted to

tax the property at what they consider its full value, as near as they could determine.

We have no great corporations in the state. The largest is the Amoskeag Manufacturing Co. That is a concern worth perhaps \$25,000,000. We consider this as being a fair way to arrive at the value of the company's property in Manchester, its headquarters, without listing the mills and machinery, stock in trade, etc.;—the capital stock sells in the market on the basis of \$25,000,000 all told; part of the property is in New Hampshire and part of it elsewhere; it seemed to us that what was elsewhere would be fairly represented by the bills receivable—that is, the money due for manufactured goods in the market, gone to New York and elsewhere. So the assessors of Manchester took the market value of the capital stock, deducted the bills receivable and assessed sixteen or seventeen million dollars as the value of the property in New Hampshire.

A sheet of paper like that, with those few questions, is presented to the taxpayer in New Hampshire. But to the assessor, when he goes out to examine property, it makes a difference whether he is on one side of the street or on the other side of the street. Land there is not worth the same as it is here or in Kansas, or as molasses is, just so much a gallon. You cannot measure it the way you can 400 acres of western land. One man has a farm worth maybe \$2,500 to \$5,000, while his neighbor only a little distance away can hardly give his farm away because it is so rocky. You people who have been there know the conditions. Therefore it is rather hard work for the selectmen to say what is the true value. Land is not sold by the acre. You go there and want an abandoned farm such as we advertise. You go up on a hill somewhere and find an oldish house, and you inquire of the owner how much land he has; he says, "I have a meadow down here of fifteen or twenty acres, a mountain pasture of seventy-five acres, and a little field of ten acres; it has been in my family for years. I inherited it from my father, and he from his grandfather." Now there is no sale value; never has been any sale value. There has never been any place just like it sold in that neighborhood. What it will bring depends on how much the prospective purchaser wants it. When a person dies, owning a

medium kind of a farm, there is no established value, and there cannot be any established value. Conditions are altogether different in a state like New Hampshire than in Iowa and Nebraska or anywhere else where there is a standard, and where the invisible line of the gentleman from Kansas does not divide values, but is merely a geographical line to be found by the surveyor.

At the constitutional convention this spring what was done along the line of taxation is embodied in the following question to be submitted to the people: "Do you approve of empowering the legislature to especially assess, rate and tax growing wood and timber, and money at interest including money in savings banks, and to impose and levy taxes on incomes from stock of foreign corporations and foreign voluntary associations and money at interest, except incomes from money deposited in savings banks in this state received by the depositors, and to graduate such taxes according to the amount of the incomes, and to grant reasonable exemptions, with the provision that if such tax be levied on the income from stock and money at interest no other taxes shall be levied thereon against the owner or holder thereof." That removes the word "proportional" from growing wood and timber, and from credits, and leaves it with the legislature, if it sees fit, to impose a slight tax on the income of foreign stocks. That was a concession to a great many people who think foreign stocks ought to bear a little of the tax burden.

A very strong effort was made to remove all constitutional restrictions as to taxation, and to adopt the language of the Minnesota constitution. The time was when I thought I favored it, but I do not now think the time is ripe for so radical a change. There is no necessity for it, because if intangibles are classified or are not taxed the great cause for complaint against the general property tax will be removed.

Now, gentlemen, I have given my testimony, and I am going to call on the gentleman from Idaho to speak about the conditions there because I have cited to you Mr. Dunning as being a man who must have taken considerable interest in a meeting of this kind to drive eighty-three miles to a railroad and ride on the railroad three days to reach here. (Applause.)

PROBLEMS IN IDAHO

MR. DOW DUNNING (Idaho): Mr. Chairman, I will not have time to say much in the five minutes allotted to me, but I have been a taxpayer in Idaho for something over thirty years, and under the old system of assessment, which is still in vogue in our state, we have the county as a unit, and the assessors are elected by a vote of the people. We have what is called a county board of equalization, which consists of the three county commissioners, elected in every county by a vote of the people. Then we have the state board of equalization, also elected by the state at large, which has general supervision over the equalization of values as between the different counties, while the county commissioners perform the duty of equalizing tax burdens between the individuals of that county.

We drifted along under the old system without much agitation for tax reform until about two years ago, and our assessments had fallen to about twenty-five per cent. of actual cash value. That is the figure given in the census report called, "Wealth, Debt and Taxation," and I believe that it was about correct. There was a constant and strong demand, from the people themselves, that values be raised to a cash basis, as required by the laws and constitution of the state.

Now mind you, we have no tax commission in the state of Idaho. We have only the officials that I have mentioned. But we have in Idaho a governor who is a vertebrate instead of a mollusc, and who proposed to enforce the law. He notified the assessors of the different counties that if they did not enforce the law and assess according to the provisions of the constitution and the law, he would prosecute them; and I want to say that they came through. The values of the railroads were originally assessed on the main lines at from \$13,000 to \$16,000 a mile. They were assessed last year at \$60,000 a mile, and this year they were raised to \$68,000 a mile, and I don't know that they are kicking at all. I think that we will keep raising them until they do kick, for I believe that whenever any man or corporation is injured, he will do the kicking quick enough.

We will wait until we hear from the gentlemen. And when the people are injured, when they feel that they are paying a great deal more than they ought to pay in proportion to their wealth, you will hear also from them.

We have a constitution in Idaho which, I believe, is one of the best in the union. That is, it can be made one of the best by a very slight improvement, by simply one amendment, that has been suggested by this association on numerous occasions, by allowing the classification of property. Throughout that constitution there are provisions for which the older states of the union have been fighting for years, and have had great difficulty in obtaining. One of those provisions is that the improvements on real estate and the real estate itself shall be assessed separately. That is a very important measure, and we can move ahead under that. We can move ahead more rapidly than some of you who have not got it. We have in our constitution also a provision that the legislature may provide by law for the exemption of a reasonable amount of improvements from taxation. And, taking the cue from the recommendations of this conference, and especially from those resolutions that were passed unanimously at the fourth convention, which declared that the general property tax had broken down on account of the inherent defects of the system, taking our cue from the constitution and from the declarations of this conference, we have been persuaded to exempt certain property from taxation, and I believe that it will be of benefit to the state.

At the eleventh session—that was a year ago last winter—we provided for the exemption of \$200 improvements on lands, and at the last session, the extraordinary session that met in January of last winter, we raised that to a cash exemption of \$500 on improvements, and we tried also to exempt all household furniture, and all intangible personal property. The governor himself recommended these exemptions, and he recommended an exemption in his message of \$2,500 of improvements on lands to each family. We aim to continue this scheme of exempting property from taxation until we shall exempt all property from taxation, and then I don't know where any man will have a kick coming. I don't see where

the railroads can kick. I don't see where any individual will have any kick coming. But we will raise our taxes by revenue that would be derived from the annual value of special privileges. We will tax the full value of special privileges into the public treasury as soon as we can get around to it. We are not alone in our efforts to do this. The northwestern provinces of Canada, New Zealand and Australia, England herself, and Oregon and Missouri are all marching along this same line, and it will all be an aid. It will help us all in getting what we are trying to get.

Now you gentlemen have admitted here, every man that has read a paper before this conference has admitted, that our system of taxation is a failure and a fraud. This conference declared unanimously at its fourth session, that it is a fraud and a failure on account of its inherent defects, defects in the theory itself. That being the case, you are all standing on your heads. You have all admitted here that it is a failure, and that the burden of all taxes is shifted on down the line, even the burden of taxes on public utility corporations, until it falls on the individual himself; that it does not fall on property; that it cannot remain on property—which we all know. Every man admits, who has ever given it a thought, that you cannot tax property but you can tax men, women and children. And under our system of taxation you are taxing the men, women and children according to what they consume. That is, you fine a man in accordance with the number of children he has. That is the kind of a fine he pays into the public treasury. That is the kind of a system that I don't believe in, and I don't believe any man assembled here believes in it either, and with all your tax commissions you have been unable to get anywhere. Without a tax commission up in the state of Idaho we are getting somewhere. We have one of the simplest systems of tax laws to be found anywhere in the union, and we are getting there with it.

We have raised the values of the corporations stated. We have raised the assessed valuation of other property in the state from twenty-five per cent. to an average of about eighty-five per cent., and have done it within two years, simply because we had a governor who had nerve enough to say that

the laws of the state should be enforced, and told the gentlemen charged with the enforcement of those laws that if they did not enforce them he would enforce them against them. In making their returns they have to swear whenever they return a property in Idaho for less than its cash value. So I think we need not demand anything like a tax commission with arbitrary powers in the state of Idaho. We had that question up a year ago last winter and the legislature defeated the measure; and we had it up again at the extraordinary session last winter and the bill was again defeated. The people of the state of Idaho do not approve of it, but we are marching right along the road of progress and we will get there, I think, before lots of you fellows that have all kinds of commissions with arbitrary powers. (Applause.)

MR. F. W. KIRKHAM (Utah): I understand, if I am incorrect I would like to have the gentleman inform the conference, that an effort was made on the part of the governor to raise all the property to full value. In a large number of counties the governor was taken at his word and the values so raised. This so swelled the income in many counties that resolutions were passed asking for special economy in the use of the funds that had been so generously brought in under this new act. Further than that, a certain number of the counties by no means raised their assessment as the governor would have had them raise it. An extraordinary session of the legislature was then convened at which it was, as a compromise measure, decided that only fifty per cent. of the true value be hereafter assessed, seemingly believing it could not be brought up to the full standard. This experience is especially profitable to us for the reason that we have a similar problem now before us, and our commission made a visit to the state of Idaho and found the situation practically as I have outlined. I felt that possibly the impression would exist that the state of Idaho had actually been able, by the force of the governor, to bring all of the property in all of the counties up to a standard of full value, whereas we did not find it so. If I am mistaken, of course the gentleman here can correct me.

MR. DOW DUNNING (Idaho): In answer to the gentleman's

question I may say that we have a state board of equalization, with power to equalize the assessed valuations as between counties, but the powers of the board are limited. They must not raise the values of the entire state to exceed sixteen per cent., and they must not lower the values of the entire state to exceed fifteen per cent. Our constitution provides for that. But they can raise one county, if need be, a hundred per cent., or fifty per cent. or thirty per cent., or any amount they desire. They can raise it 200 per cent. if they desire, by lowering the values in some of the other counties; and they are doing this in order to equalize the valuations as between the counties. So that if one county were assessed at very much below its actual value while the other counties of the state were assessed at very nearly their actual cash value, the state board of equalization would raise materially the county that was too low; and it might lower a few of the other counties that seemed above the average. As to the defiant counties mentioned, I think there was only one county in the entire state in which a plain intent to violate the law, was shown, and that county was brought to by the board of equalization.

THE CHAIRMAN (Mr. Fellows): Will you pardon me a question. Does each individual have to return an inventory listing all his property to the assessor?

MR. DUNNING: Yes, sir, we return a correct list of all of our property.

THE CHAIRMAN: How many questions are there on the list? What is taxable?

MR. DUNNING: There are probably about twenty or twenty-five questions. It aims to cover every kind and class of property in the state of Idaho.

THE CHAIRMAN: Are watches taxed, and jewelry?

MR. DUNNING: I cannot remember whether watches are taxed.

THE CHAIRMAN: Is household furniture?

MR. DUNNING: Yes, except a small exemption.

THE CHAIRMAN: How carefully do they look into a man's household furniture?

MR. DUNNING: I never had enough property of that kind to equal the exemption, and I think very few have. The

county in which I live is one of the richest in the state, and there are some very rich men in Owyhee county. The assessor told me some time ago that only one man had a cent of money in Owyhee county, and this man had \$700 in a certain bank, and gave it in as \$700. That was the only man who had any money in the county, and he was a poor man.

THE CHAIRMAN: He happened to be honest, eh?

MR. DUNNING: Some people would call it that, yes. He had a tax conscience, I suppose.

THE CHAIRMAN: Well now your money is taxable. Suppose you had \$700 in your pocket; is that taxable?

MR. DUNNING: Oh, yes.

THE CHAIRMAN: And you offset your debts against it?

MR. DUNNING: I believe you could. You could if it was in a bank, I know. I think if it was in your pocket the same rule would hold good. I never had that much in my pocket.

THE CHAIRMAN: Suppose you had a mortgage on your neighbor's farm. Is that mortgage taxable, or the note taxable to you?

MR. DUNNING: No, no. Mortgages are not taxable under the laws of Idaho.

THE CHAIRMAN: Suppose you had a mortgage on somebody's farm down in Utah. Is that taxable?

MR. DUNNING: No, no.

THE CHAIRMAN: Then your credits are not taxable?

MR. DUNNING: The mortgage would not be recorded in Idaho at all.

THE CHAIRMAN: I know it would not be, but is not money out at interest taxable?

MR. DUNNING: Well, I suppose it would come under the head of property. The law says that all property shall be assessed at its full cash value.

THE CHAIRMAN: I thought you stated that you had exempted credits from taxation.

MR. DUNNING: Well, those are provisions of the laws passed at the last session of the legislature, and last winter.

MR. A. S. DUDLEY (Wisconsin): The gentleman from Idaho has spoken of the assessment being raised by the efforts of the governor, and yet it seems that in a great many of the

counties the governor was unable to get the full valuation. Then when the state board came to equalize, it was bound by a law not to raise the aggregate assessment of the state beyond a certain figure. At the same time the railroads—as I have an interest in railroads it always causes me to prick up my ears whenever they are referred to—the railroads were very materially increased. I would like to know whether there was any attempt to equalize between the railroad valuations and the general property, any real attempt. You have spoken of the fact that a great deal of property, the property of individuals, escapes taxation in Idaho, and you refer to the fact that the burden really rests upon the man and not upon his property. A large part of a man's property escapes, although certain other parts of it may be assessed at full value. The burden is diminished by the fact that a part escapes. Is there anything of that sort considered when you come to the equalization of the general property with the railroad property?

MR. DUNNING: No serious effort has been made in Idaho to equalize railroad values in proportion to the values of other property. I do not believe that any serious effort has been made in any state of the union to do that, and I do not believe that such a thing need be done. I do not believe that injustice will ever come to the railroads on account of being assessed out of proportion to other property. Now these railroad representatives have all admitted that the tax on their property is simply a part of the expense of conducting their business, and simply adds to the cost of the commodities they handle, that are consumed by the public. It simply raises the price to the public. Now that being the case, if the railroads are assessed and taxed equitably as between one another with whom they compete, and are not taxed higher than other railroads with whom they compete, I cannot see that any injustice will be done.

MR. DUDLEY: Under that theory then, the state of Idaho would have a right to take all the cost of transportation, although a part of that cost might be really incurred in the adjoining state of Montana. That is to say, if you will add the cost, you can make the cost anything you please in the

state of Idaho, and it will add to the total cost. Under that theory couldn't your state add to the transportation cost of every other state?

MR. DUNNING: I would say in answer, that the whole question of railroad taxation is simply leading to public regulation of public utilities, and that a strict regulation by the public of public utilities means nothing more nor less than the public ownership of all public utilities, in which I am a firm believer. These railroad gentlemen themselves all admit it is leading to that. Anything that is a natural monopoly must be handled by the people themselves or injustice will be done to them.

MR. DUDLEY: Mr. Chairman, I appreciate very much the utterance of yourself concerning the continuation, as a general policy at least, of the principle of uniformity in taxation. I do not mean by that, and I did not mean the other evening in speaking of this matter, that it is necessary to have a uniform rate in order to produce uniform taxation. But I do object to having the bars thrown down so that there may be as many classes of property for the purposes of taxation as there are classes of property for any other purpose, and I object to having it left to the whim of the particular legislature, or to the excitement of the period. On my own behalf as the representative of a railroad, I would say that we need protection in the constitutions, and if the bars are to be let down, indicate in your constitutional amendments to what extent they are to be let down. State that moneys and credits may be classified, and timber lands or cut-over lands, and a separate and distinct rate applied to these classes of property, but don't say in your constitutional amendments that property may be classified into as many classes as your legislature may see fit, and as many different rates imposed. Let us have some protection.

THE CHAIRMAN: It is now the turn of Oregon. Mr. Gallo-way, I would like to have you get down to the individual, what he has, what he has to pay taxes on, and how the assessor gets at him.

ADMINISTRATIVE PROBLEMS IN OREGON

MR. CHARLES B. GALLOWAY (Oregon): I wish to throw a side light on the remarks of my friend Dunning. He intimated that they do not, in Idaho, need a state tax commission. To a certain extent I agree with him, for Idaho is fortunately situated in being able to use data supplied by the tax commissions of Oregon and Washington.

The Washington tax commission was created in 1905 and the Oregon tax commission in 1909. Working along similar lines and following methods which we believe are approved, the two commissions have placed values for taxation on all the railroads of these two states. Several of these railroad lines run into or through the state of Idaho.

I happen to know that in 1911 the Idaho board of equalization secured data from the Oregon tax commission as to the value of the Oregon Short Line Railroad, which operates in both states. That year the assessed value of the main line of this company was raised to \$60,000 per mile in Idaho and the assessment made by the Oregon tax commission on our part of the same line was given as authority for the increase. Similarly the equalization board of Idaho used the conclusions reached by the Washington tax commission in placing values on the Northern Pacific and Great Northern. The tax commissions of Oregon and Washington are pleased to assist the people of Idaho and congratulate them on being so favorably situated as not to require a tax commission of their own. (Laughter.)

Our work in Oregon may have had some further bearing on tax matters in Idaho. In 1911 the governor of Idaho compelled the assessors to make very material advances in the direction of full value assessments. During 1909 and 1910 the tax commission of Oregon was busy in a similar endeavor and the assessed value of our state increased from \$598,000,000 in 1908 to \$891,000,000 in 1911. Oregon secured this material increase successfully, and it was entirely reasonable for Idaho to do likewise.

MR. A. S. DUDLEY (Wisconsin): Without any equalization with the general property?

MR. GALLOWAY: We do make an equalization.

MR. DUDLEY: Idaho followed you by taking the scientific appraisal of Oregon, and adopting it as a scientific appraisal for its state, the figures being sufficiently accurate for the purpose, but failed to make any equalization with the general property of the state.

MR. GALLOWAY: I don't know about that.

THE CHAIRMAN: Will you tell us what authority the tax commission has over the local selectmen or assessors.

MR. GALLOWAY: We don't have selectmen. There are just ordinary folks in Oregon. (Laughter.)

THE CHAIRMAN: I meant, of course, your local assessors. I used the vernacular back east.

MR. GALLOWAY: We have the county assessor system in Oregon.

THE CHAIRMAN: Is it the duty of these county assessors to go all over the county and examine the property and assess it?

MR. GALLOWAY: Each county assessor, usually with the approval of the county court, appoints deputies who do much of the field work. The counties in Oregon are too large for any one man to list and assess all the property. The field deputies are under the direction of the county assessor and responsible to him.

THE CHAIRMAN: Well now what power does the state board, your board, have to correct assessments in property, assessments made by these people under you?

MR. GALLOWAY: Our state board has no direct jurisdiction over the original assessments made by the county assessor. These are equalized by the county boards. To explain the procedure briefly: The assessor prepares a county assessment roll each year, and turns it over to the county board of equalization, which meets on the third Monday of October. This county board is allowed one month in which to correct and equalize the roll. Any taxpayer may petition and argue for a reduction or change in any particular assessment. If he does not so petition the county board he is

debarred from later appealing to the courts for equalization of the assessment.

THE CHAIRMAN: Is each taxpayer supposed, or by law required, to return a list of his property?

MR. GALLOWAY: He is.

THE CHAIRMAN: Suppose the man does not return any such list, what then?

MR. GALLOWAY: The assessor can make an arbitrary assessment. If he finds that the list returned is incorrect or false he can change the assessment to conform with the facts. Where an assessment is changed the taxpayer must be given notice.

THE CHAIRMAN: Is the taxpayer taxable now on his moneys, money in his pocket and at interest?

MR. GALLOWAY: Intangible personalty is taxable under the laws of Oregon, that includes moneys and all forms of credits.

MR. LAWSON PURDY (New York): No deduction for debt?

MR. GALLOWAY: No deduction for debt.

THE CHAIRMAN: How much is returned, as a matter of fact?

MR. GALLOWAY: Very little. Exclusive of shares of bank stock, the moneys and credits assessed in Oregon amount to less than two per cent. of the total taxable property of the state. A measure providing for the exemption of all forms of credits, other than shares of bank stock, will be voted on by the people of Oregon next November.

MR. W. O. DAVIS (Kentucky): I should like to ask the gentlemen a question. You spoke of the railroad assessments. Is that a full and complete assessment, or do you, in addition to that, also assess franchises?

MR. GALLOWAY: That is a full and complete assessment. In assessing a railroad company we value the entire operative property within the state as a unit, or we compute the value of the entire property of the system and then take Oregon's proportion on the mileage basis. We do not assess franchises directly or separately, but take them into consideration and include their value with that of the tangible property used in operation.

MR. DAVIS: That assessment is for state purposes?

MR. GALLOWAY: No, that assessment is apportioned over the main and branch lines and entered on the county rolls. Taxes on railroads and other public service companies are collected by the counties, in the same manner as taxes on other property.

MR. DAVIS: Apportioned on the mileage basis?

MR. GALLOWAY: Yes.

MR. J. H. McCONLOGUE (Iowa): I would like to ask Mr. Galloway this question. In arriving at the valuation of railroads what elements does his commission take into consideration in reaching the valuation per mile of a railroad?

MR. GALLOWAY: We are authorized to take into consideration any elements that may be of consequence. As a matter of fact, following a decision of our supreme court several years ago, we use principally the capitalization of net earnings method in valuing railroad property. We take the average annual net earnings of the company during a period of five years and, after deducting the average taxes paid and making reasonable allowance for depreciation, capitalize the remainder at the rate of six per cent.

After arriving at the value of the entire operative property of a railroad company in the state, we apportion or distribute this value to all the main and branch lines. The value per mile in either case refers to a mile of main track. This feature of the law we hope to have changed, so that values per mile shall be computed and apportioned on the all track basis.

PROF. JOHN E. BRINDLEY (Iowa): Would that do justice to the rural districts?

MR. GALLOWAY: No, it would not. But we cannot correct all the defects of a tax system at once, nor can we move faster than is justified by public sentiment. In trying to work out an equitable scheme for the distribution of railroad values we run against many local demands and prejudices. There are several counties in Oregon wherein the railroad assessments amount to one-fifth or more of the total taxable property. The people of the counties having railroads will not yet concede that a county without railroads should receive any part of the tax thereon.

PROFESSOR BRINDLEY: That means, Mr. Galloway, that the townships and the counties that have no railroads patronize these roads and therefore, indirectly, through freight rates, they are helping pay the taxes of the counties that are helped because they have railroads.

MR. GALLOWAY: It means that.

PROFESSOR BRINDLEY: That is a beautiful system.

MR. GALLOWAY: The system is not so bad as it appears. At any rate it is the best we can do at present. Professor Brindley has been in Oregon and knows something of the conditions there. Our counties that have no railroads are counties where the tax rate is generally low.

MR. J. H. MCCONLOGUE (Iowa): I desire to ask Mr. Galloway another question. The tax commission of Iowa is interested in the county assessor. I want to know if your state tax commission has power to order re-assessments.

MR. GALLOWAY: We have not. The tax commission is given general supervisory powers over the work of the county assessors, but we cannot discharge an assessor or make re-assessments of our own.

MR. FRANK B. JESS (New Jersey): Mr. Galloway, might I ask this question? Do I understand the field deputies are appointed by the county assessor?

MR. GALLOWAY: They are appointed by him usually with the approval of the county court.

MR. JESS: Are they required to give their whole time to the work?

MR. GALLOWAY: No, only such time as is necessary. The field work is usually completed in four or six months at the outside, depending on the size or population of the county and the number of deputies at work.

MR. JESS: Are they appointed with reference to their residence in any particular section?

MR. GALLOWAY: Frequently so, but not necessarily. An assessor may send a deputy to work in any part of the county.

MR. JESS: Is that system entirely satisfactory in Oregon?

MR. GALLOWAY: We have not heard of any particular ob-

jection to it. It is a system that has been in vogue many years and appears to give general satisfaction.

MR. B. E. STONEBREAKER (Iowa): Now your counties out there being very large and your county board only having authority within the county to make equalizations as between individuals, I would like to ask if the people suffer much inconvenience in having to go to the county seats to state their grievances owing to the distances that they might have to travel?

MR. GALLOWAY: I think they do not. They don't have to go to the county seat; a petition has to be presented in writing and may be sent by mail. It frequently happens that non-residents petition county boards of equalization for reductions in their assessments, without appearing in person or by attorney.

MR. STONEBREAKER: There is not much complaint?

MR. GALLOWAY: That depends on whether the taxpayers generally are satisfied with the assessments. Sometimes a county board of equalization can dispose of all complaints and complete its work within a few days. Sometimes it is busy for a month, it is required by law to finish within that time. I know of a few sessions of county boards where no complaints or petitions for reductions were presented.

MR. A. C. RIPLEY (Iowa): I would like to know whether or not these petitions for reduction of assessments avail anything, or whether it is necessary and productive of better results for the petitioner to go in person and insist on his rights. Is it a fact that there are no requests for reduction of assessments in some counties because by past experience taxpayers have found that they are of no avail and hence have quit making them?

MR. GALLOWAY: I regret to take so much of your time, gentlemen. The condition is not so bad as Mr. Ripley suggests. It is better of course for a taxpayer to be on the job, to go in person. But the county boards really do attempt to correct and equalize assessments. The county assessor is a member of the board. He is familiar with the assessments and frequently corrections and changes are made in response to petitions.

MR. DOW DUNNING (Idaho): I would like to ask one question while Mr. Galloway has the floor. I understood Mr. Galloway to say that they have no state board of equalization that equalizes values as between counties. Is that correct, Mr. Galloway?

MR. GALLOWAY: We equalize values between the counties for the purpose of proportioning the state tax and also for the purpose of apportioning the assessments of public service companies. We do not equalize the individual assessments made by the county assessors.

MR. DUNNING: The county board does that?

MR. GALLOWAY: Yes.

MR. DUNNING: That then is our system in Idaho.

THE CHAIRMAN: We would now like to hear from Washington, where, as I understand, they have arrived at a correct solution of the problem of taxing moneys and credits.

ADMINISTRATIVE PROBLEMS IN WASHINGTON

PROF. VANDERVEER CUSTIS (Washington): I represent the university rather than a taxing board, and I cannot speak with the experience back of me that one of the tax officials would have. Our situation in Washington is very much like that outlined by Mr. Galloway of Oregon. We have the county assessors with deputies, where deputies are necessary. We have county boards of equalization. We have the state board of equalization. We have a commission which has general authority to supervise the whole system. We exempt moneys and credits. That exemption was passed some years ago in this form, that moneys, notes, accounts, mortgages, credits and a few other things are not property for the purpose of taxation. The matter was promptly brought before the supreme court on the ground that it contravened a provision in the constitution requiring uniformity. The supreme court held that equality of taxation is as important as uniformity; that the taxation of credits is essentially double taxation, taxing the corporation and taxing the securities of the corporation, taxing the land and taxing the mortgage on the land—that all this is double taxation, and that property of this sort, therefore, or instruments of this sort, are not property for the purposes of taxation. They held, however, that actual money is property, so that part of the exemption was unconstitutional. That, of course, left open the question whether a bank account is money or a credit. It was in conflict, as I understand it, with a supreme court decision in another action to the effect that a bank account is the same thing as money. I believe, however,—I will not assert it as a fact but I am pretty sure—that it has now been decided that a bank account is a credit. That leaves as property subject to taxation actual money in pocket or safe deposit vault. If there are any questions I can answer I shall be very glad to do it. I was not prepared to say anything.

MR. J. H. McCONLOGUE (Iowa): I would like to ask if your state board of equalization equalizes between counties as to specific property?

PROFESSOR CUSTIS: No. The state board of equalization equalizes in just about the same way as it does in Oregon. That is to say, it may raise or lower a whole county. I don't mean by that it raises the actual amount, but if a county is assessed at too low a rate that county is equalized so that it will pay its due share of the state tax.

THE CHAIRMAN: How are your people pleased with this exemption of intangibles?

PROFESSOR CUSTIS: There is a certain amount of opposition to it, in fact, a considerable amount of opposition, but I think there is little probability it will be changed. The law is passed and will stay on the statute books I think until we get some general reform. If we were to pass an amendment permitting classification of property for the purposes of taxation, there would be a very strong movement—how strong I cannot say—but there would be a very strong movement to put a moderate tax on intangibles. Of course you understand when I am talking about intangibles I am not speaking of franchises. We tax franchises.

May I add another word in regard to amending our constitution? It has been tried out every session since the commission was formed, and in each case has been a failure. Once an amendment was submitted to the people. The proposed amendment provided that taxes should be uniform on the same class of property, and should be levied and collected for public purposes. A great deal of opposition was aroused on the ground that that would hit religious, educational and charitable institutions, that it would in some way make them subject to taxation. This opposition was apparently very carefully worked up by interested parties for the purpose of defeating the amendment proposed, and it did defeat it. But I think the amendment would have had a very fair chance if that issue had not been brought in. Since then the legislature has not even consented to submit it to the people, but I presume it will come up until it does.

MR. S. E. HAMER (Colorado): I understand the gentleman

to say that they tax franchises. I would like to know what method they use to determine the value of a franchise.

PROFESSOR CUSTIS: Each railroad for instance is required to submit to the state board of tax commissioners a detailed report showing certain facts in regard to the capital stock and so on. Then we have in addition the physical valuation of the railroads. The state board of tax commissioners thereupon assesses the railroads, including the franchise. The franchise is not dealt with specifically and separately, but the valuations of the railroads are supposed to include the value of the franchise.

MR. HAMER: How do they determine the value of the franchise? I understand how they get the value of the physical property, but how do they know what to add to the value of the physical property as representing its franchise value?

PROFESSOR CUSTIS: It is a part of the value of the railroads. When I say they tax the franchise, I do not mean that is done as a separate item on any line. The tax on a railroad is estimated on a number of bases, including the stock, the physical valuation, and a number of elements they put together. The value they assess is intended to include the value of the franchise.

MR. A. C. RIPLEY (Iowa): I understand in the assessment of railroad property that they attempt to arrive at the total value of the concern as a whole, and that they take into consideration the rolling stock, the right-of-way, track, terminals and everything of a physical character belonging to the railroad, the corporation, and they add to that the franchise. Now what way have they for determining how much to add on account of the franchise itself?

PROFESSOR CUSTIS: I could answer that question very much better if I were one of the state board of tax commissioners and shared in their deliberations but, as I understand it, they get at the total first. The physical valuation is really made for purposes of regulation. It is used by the tax commissioners as one of the indications of the value of the railroad, but they try to find the value of the railroad as a whole, and as I understand it, they do not distinguish be-

tween what is due to the franchise and what is due to something else.

MR. W. T. FROST (Kentucky): I would like to ask whether in the assessment of individual property, you deduct the indebtedness of the owner?

PROFESSOR CUSTIS: No, indebtedness is not deducted.

MR. FROST: I would like to ask Mr. Galloway that question.

MR. CHARLES B. GALLOWAY (Oregon): It is not. It has not been for a number of years. We used to have it, and then everybody was in debt for more than he was worth.

PROFESSOR CUSTIS: I might say the exemption of indebtedness was removed at the same time that we granted the exemption of credits.

MR. FROST: Suppose I sell to an individual a hundred acres of land for \$4,000, and he gives me a note. Is the note property or is the land property? Which is exempt?

PROFESSOR CUSTIS: The land is property. The mortgage is exempt.

MR. FROST: And the man who gets the land pays the taxes?

PROFESSOR CUSTIS: That is what I understand, the entire tax.

MR. FROST: And the poor land owner who is trying to pay off the mortgage would bear the burden of taxation. In our state both the land and the mortgage are taxed.

THE ASSESSMENT OF RAILROADS

MR. WILLIAM L. TARBET (Illinois): I am a railroad man, and the discussion here in regard to franchises leads me to say a word. I am tax commissioner of the Illinois Central Railroad. It seems to me—and here I am reminded of a saying of my father's. He always said, "In my humble judgment, and I think I am right,"—it seems to me that no railroad property of which I know can be assessed in parts, and the statement made that the franchise is worth so much, the physical property so much, the terminals so much, and the right-of-way so much. It is *sui generis*. You have to assess it as a unit. You have to value it as a unit, and that includes all the elements of valuation. There is no franchise value of a part, because without the franchise it is not worth anything. It is all so wrapped up in one thing that you cannot separate it. I think it is futile to try. I objected to a proposition in Louisiana a few years ago, the amendment to the constitution referred to by Mr. Hart. That provided for an assessment of the franchises of railroads separately from the physical property. This was also attempted in Kentucky, and in a way in Tennessee, but not so specifically—possibly in some other states. But it always leads to confusion, and it always leads to excessive valuation and excessive taxation, I think, or at least that is the tendency. It is not scientific, in my opinion.

There has been a good deal said here about the advisability of exempting certain classes of personal property, because it has been found impossible to tax them; and in some states the expedient has been tried of classifying them by themselves, and subjecting them to a flat rate of taxation, in order, as I take it, to increase the aggregate amount of taxes. Possibly I am mistaken as to the purpose. But I don't see how it accomplishes any other purpose. Now, granted that it is advisable to either omit altogether, on account of double taxation or for some other reason, certain classes of personal property, or as some states would

have it, to classify and tax them at a flat rate, granted that this is all right, what about the remainder of the taxable property? Suppose we have two or more classes of that, and you make a provision to preserve uniformity with respect to the items taxed in each class, but say nothing about uniformity as between these particular classes. Now why is that omitted? Why should it be omitted, that matter of uniformity between classes of property, both of which are equally accessible and easily found by the assessor?

It seems to me, Mr. Chairman, that your suggestion when you first took the chair is an admirable one. I am not a reactionary by any means. I am a progressive. That is to say, by progressive, I want any change adopted that will be for the better. But I do think there are certain principles that are fundamental from which we should be careful not to depart. One thing that prompts me to speak this way is this. I was down in Louisiana and had a talk with Mr. Farrer, an eminent lawyer, who was president of the American Bar Association last year. Mr. Farrer's attention was called to the fact that under the proposed amendment in Louisiana railroads would be assessed by the new state board of tax commissioners at a hundred cents on the dollar, full value, and that the limit of the tax levy would be twenty-five mills, unless the legislature saw fit by a two-thirds vote to make it forty mills. Other property in the parishes, however, was limited in the levy rate to sixteen mills, and they were allowed to assess this any per cent. of full value that they saw fit, just as they had been doing. I said, "Mr. Farrer, take the planters out here in the parishes and they will be taxing themselves in this way, say sixteen mills multiplied by twenty-five per cent. of full value. That is 400. And the railroads would all be assessed at 100 per cent. of full value multiplied by twenty-five mills, the maximum, 2,500 as against 400 for the other fellows. Of course in the cities the rate would be higher than on the plantations, but suppose it would be double. It would look as though all those in the segregated class in which the railroads were placed as a source of income for the state, would pay anywhere from six to ten dollars on a given real value of the property, whereas the

planter would be paying about one dollar, and the city man possibly three dollars." I said, "Wouldn't it work out just about that way?" He said he thought it would. He said that they had abandoned the theory of uniformity as a falsehood, and he cited as authority for so doing, the National Tax Association. We ought to think twice before we suggest that a constitution should omit all safe-guards whatever as to properties that assessors can readily find and value.

THE CHAIRMAN: I think the gentleman who has last spoken, and the railroad people that are here, forget this—that today the railroads and other corporations have no rights that people are bound to respect. Isn't that the modern theory? You are speaking of assessing railroads. Let me state what we do back in New England. We are entitled to a proportionate valuation on all their property. The state board of equalization and the state tax commission try to arrive, under the ad valorem system, at what they are worth; if other property has been under-valued ten or thirty per cent., the same under-valuation is given to the public service corporations, and then the average rate of taxation is assessed against them. That seems to me fair according to our old-fashioned ideas, but under your new-fangled ideas out in the west where the corporations have no rights, of course, you do just as you want.

MR. A. S. DUDLEY (Wisconsin): I want to take exception to your remark about the new-fangled notions of the west. These are new-fangled notions from the east.

THE CHAIRMAN: No, they are not. We will stand for a good deal back there, but we don't stand for any such accusation as that.

MR. DUDLEY: Then I don't know who does stand for it, because I can speak from personal knowledge of at least eight states in the west, and in none of them has any such notion been brought forward as that I have heard here today, that it is proper to use a different ratio in the assessment of railroad property from that used in the assessment of other property.

MR. B. F. MILTON (Kansas): I am a member of a tax com-

mission honored by having at its head one of the best men in the United States. The railroads assessed by that tax commission don't raise the question that has just been raised about the justice of their taxation.

MR. A. C. RIPLEY (Iowa): It has been stated here, if I understood correctly, by a representative of the railroads, that there is no way by which you could accurately determine the value of a piece of railroad property. When I was in school, I had ground into me the rule that any physical object might be separated into parts, and that the whole was equal to the sum of all the parts. Now he says that it is dangerous to undertake to reach the whole value by separating the thing into its parts and adding those parts together, because it tends to exaggeration. That does not appear to me necessary at all. It appears to me that the old rule that I learned in school must apply to a railroad company as well as everything else, that the sum of all the parts is equal to the whole.

Another gentleman has said, "You must not depart from the rule that all sorts of property shall be assessed according to a uniform rule of value." Now if you must assess railroad property according to the same uniform rule that you apply to farm lands and other physical property, how in the name of common sense are you going to assess it unless you can determine what its value is, according to that uniform and common rule? There are a few things about this that I would like to have the railroad men make clear to me.

THE CHAIRMAN: I suggest that you railroad men write this gentleman, because he is on the Iowa commission. Professor Brindley.

PROF. JOHN E. BRINDLEY (Iowa): There is one idea that I think ought to be clearly brought out in this discussion of tax administration. The method of tax administration that should be adopted in any state, Mr. Chairman, depends in a very large measure on the character of local government prevailing in that state. One gentleman this morning suggested the desirability, for example, of the tax commission being clothed with power, as I recall it, to appoint county

assessors. That sort of thing would be absolutely impossible in Iowa at the present time. The method that is adopted varies all the way from a large power of appointment in some of the leading cities, to the locally elected New England township assessor, who is, I believe, subject to very little supervision. When we are discussing the administration of tax laws in the various states of the union, we must necessarily bear in mind the different systems of local government. In thirty states of the union the county is the unit of local government, primarily the unit of local government, from the standpoint of assessment and equalization. In about eighteen states, including all of the New England states, the township is the primary unit. Now the extent to which you will be able to adopt the appointive system, or the extent to which you will be able to enlarge the assessment unit, depends upon the history of the people and the general character of the local government which prevails in the particular state. I think the idea ought to be brought before this conference very forcibly that you cannot formulate very many arbitrary rules on this proposition.

MR. C. P. LINK (Colorado): What do you propose in regard to the distribution of railroad values?

PROFESSOR BRINDLEY: You have asked me a question. I will answer as frankly as I can, and if I answer incorrectly some member of the Iowa commission will correct me. The terminal tax people for the last six years have been making a very serious criticism of the present law. I think there is an element of truth in what they say, although I do not think what they say is all true. I am speaking now, Mr. Chairman, from my personal view point. I am inclined to believe that the proper thing to do is to create adequate machinery of assessment and form a permanent tax commission, with a county assessor, and then let this permanent tax commission make a more thorough investigation of the question of the valuation of railroad property in order that we may arrive at a more nearly equitable basis of distribution. Answering your question a little more concretely, I personally feel that the present system of distribution is not defensible. We have the mileage distribution on main

track throughout the rural districts. I think it is open to criticism from two standpoints. First, the values are distributed through the townships and school districts where the main track lies, and they get the benefit of this taxable value. However, the school districts and the townships having no railroads nevertheless support the railroads, indirectly, through freight rates, and therefore help pay the taxes on the townships and school districts that have the railroads. I think it is unjust discrimination between the rural districts. Perhaps also there is some injustice in the distribution of valuations to the city. I am strongly in favor of doing the same justice to a railroad company that you do to a common, ordinary individual. They have contributed just as much to the prosperity of this country, and are entitled to justice. Personally, I think that before any fundamental or radical change is made there ought to be a careful investigation by a permanent tax commission of the value of these corporations, and the collection of all relevant statistics so that we will be able to arrive at a more equitable law.

THE CHAIRMAN: Governor Bliss has a suggestion to make here.

HON. Z. W. BLISS (Rhode Island): Mr. Chairman and Gentlemen of the Convention: You will remember that by vote of the conference all resolutions to be acted upon at the meeting this evening were to be posted before 5 o'clock this afternoon. The committee on resolutions have only three resolutions to recommend. One is in regard to a government publication by the department of commerce and labor; another is in reference to Mr. Foote, the retiring president; and the other is with reference to the mayor and the governor who gave addresses of welcome. If there is no objection, and if there are no other resolutions to be acted upon, I will ask the permission of the conference not to post these resolutions, none of which contains anything debatable or about which there is likely to be difference of opinion.

THE CHAIRMAN: I hear no objection, governor.

PROF. T. S. ADAMS (Wisconsin): May I take this opportu-

ity of saying a word about one of these resolutions. For a long time we have been endeavoring to get some sort of an official publication. As chairman of the committee last year, I took up with the secretary of the department of commerce and labor the question of issuing something in the nature of a periodical publication, devoted principally to state and local taxation. The proposition has been acted on and there are now under way plans for a publication of some kind, possibly in the nature of a special report. I desire to ask that every representative of a state board and every public official present, will keep this publication in mind, and render every assistance possible, both by answering questions and by calling the attention of the Bureau of Corporations at Washington, D. C., to important developments in their own state. I suggest, furthermore, that they send in duplicates of the interesting statistical results which appear constantly as by-products of their official work. I feel that this is, perhaps, in a quiet way, as important a development as we have had. At bottom I believe this question of taxation is an educational question. If you have listened to all these papers today, the conclusion you must have drawn is that the first and most important, and most difficult problem, is educational. What we must do first is to get facts. We talk about loose generalizations most of the time. After we get the facts, we must next get them to the public, and into the minds of the public. Here is a publication under government auspices, perfectly disinterested, perfectly impartial, that promises, at intervals, to bring to the students of this country authentic facts. I hope the hearty co-operation of every man who is working along this line in the country will be enthusiastically given the Bureau of Corporation Department of Commerce and Labor.

THE CHAIRMAN: Do I understand, Professor, that when this publication is started, the names of all tax officials throughout the United States will be in your possession or in the possession of somebody, so that notice will be given direct to them?

PROFESSOR ADAMS: Well, I take it that a mailing list of all delegates will be obtained from this association.

THE CHAIRMAN: And then your purpose is to call it to the attention of those who are here so when they receive that they will know what it means when the bureau writes them?

PROFESSOR ADAMS: Mr. Flannery here represents the department. He is in the city possibly on other business, but has been to some of these sessions. He is in charge of the investigation. Mr. Flannery is here now. I hope as many of you as possible will meet him, and will give him your assistance as far as possible.

NINTH SESSION

THURSDAY EVENING, SEPTEMBER 5, 1912

CHAIRMAN, LAWSON PURDY, NEW YORK CITY

PROGRAM

- 1. REPORT OF THE COMMITTEE ON RESOLUTIONS.**
- 2. BUSINESS MEETING OF THE NATIONAL TAX ASSOCIATION.**

REPORT OF RESOLUTIONS COMMITTEE

THE CHAIRMAN: (7:17 p. m.) Gentlemen, the chairman of the committee on resolutions presents the following resolutions and asks that they be read by the secretary.

The secretary of the conference then read the first resolution, as follows:

Resolved, that this conference welcomes the decision of the department of commerce and labor to publish a periodical devoted to American taxation, proffers its support, urges its members to co-operate heartily with the department, and respectfully urges that the publication be issued at regular intervals, and not less than four times a year.

THE CHAIRMAN: The chairman of the committee on resolutions moves the adoption of the resolution.

[The resolution was adopted unanimously.]

The secretary then read the second resolution, as follows:

Whereas, Mr. Allen Ripley Foote, the founder and president of the National Tax Association from its inception, has felt obliged, on account of ill health, to decline re-election to the presidency of the association, and

Whereas, Mr. Foote, in organizing and directing the association has rendered incalculable service to the cause of tax reform in the United States, and has achieved results surpassing the expectation of the most sanguine friends of the association,

Resolved, that this conference place upon record its profound appreciation of the work accomplished by Mr. Foote during the five years of his presidency, and its feeling of personal gratitude for the service he has rendered and the sacrifice he has made in behalf of the association. The conference expresses its hope that Mr. Foote may be restored speedily to complete health and may be spared for many years to witness the complete realization of the reforms to which he has so largely contributed.

HON. Z. W. BLISS (Rhode Island): I move the adoption of the resolution, and I want to add a personal word of felicita-

tion to Mr. Foote. Three years ago it so transpired that I was a member of a joint special committee in the state of Rhode Island for the investigation of the revenue laws of the state, appointed with instructions to report such amendments and additions to the laws of the state as seemed advisable. I was appointed upon that commission probably for the reason that I happened to be at that time chairman of the ways and means committee of the house of representatives of Rhode Island. At this time I want to express my gratitude to Mr. Foote and my thanks to the members of this association for the help which they gave to me personally and to the committee. It enabled us to make within a reasonable time a report to the legislature which finally was enacted into law. If it had not been for the assistance that was rendered to that special committee by this association, tax reforms in the state of Rhode Island would have been delayed a long time—probably several years. I say this now because it is the only chance that I have had; and I want to say also to those members of the association and to the delegates who have attended this convention that they will make no mistake in asking the assistance of the various tax associations and commissions in the different states, and to those men I wish at this time to express my most hearty thanks for the information and the support which they have given to the committee from Rhode Island. (Applause.)

THE CHAIRMAN: Gentlemen, you have heard the resolution. Is there discussion? All in favor of its adoption will say aye. It is carried unanimously.

The secretary then read the third resolution, as follows:

Resolved, that the conference express its appreciation of the cordial welcome extended by Governor Carroll, of Iowa, and Mayor Hanna, of Des Moines, to the delegates to the conference and members of the Tax Association; and

Resolved, that the thanks of the conference are hereby extended to the local committee of arrangements, the management of the Hotel Savery, and the newspapers of Des Moines.

The chairman of the committee on resolutions moved the

adoption of the resolution, which motion was seconded and carried unanimously.

THE CHAIRMAN: There is no further business before the conference, so far as the chairman is aware of.

Upon motion by Hon. Z. W. Bliss of Rhode Island, duly seconded and carried, the chairman declared the sixth national tax conference adjourned.

BUSINESS MEETING, NATIONAL TAX ASSOCIATION

Thursday Evening, September 5, 1912

LAWSON PURDY, VICE-PRESIDENT, PRESIDING

THE CHAIRMAN: The meeting of the tax association will now come to order. Pursuant to the resolution adopted yesterday directing the executive committee to place in nomination the names of officers for the ensuing year, the executive committee makes the following report:

Honorary President—Allen Ripley Foote, Columbus, O.

President—Edwin R. A. Seligman, Columbia University, New York.

Vice-President—Samuel T. Howe, Chairman State Tax Commission, Topeka, Kansas.

Secretary—T. S. Adams, State Tax Commissioner, Madison, Wis.

Treasurer—Alfred E. Holcomb, Assistant Secretary American Telephone & Telegraph Company, New York City.

Executive Committee—The above four officers and James E. Boyle, University of North Dakota, Grand Forks, N. D.; Wm. H. Corbin, State Tax Commissioner, Hartford, Conn.; Douglas S. Freeman, Former Secretary Special Tax Commission, Richmond, Va.; Charles V. Galloway, State Tax Commissioner, Salem, Ore.; Nils P. Haugen, Chairman State Tax Commission, Madison, Wis.; W. O. Hart, New Orleans, La.; Samuel Lord, State Tax Commissioner, St. Paul, Minn.; Lawson Purdy, President Department of Taxes and Assessments, City of New York.

Mr. Holcomb of New York moves that the secretary cast one ballot for the officers nominated by the executive committee. The motion is duly seconded. Is there discussion?

The motion unanimously prevailed, the ballot was cast as directed, and the above named persons declared elected to the respective offices for the ensuing year.

THE CHAIRMAN: Certain amendments have been proposed

and are now before the association. The secretary will read the amendments by which articles 2, 3 and 4 will be repealed.

The secretary then read the following proposed amendment:

MR. PLEYDELL: The following amendment to the constitution was duly submitted to the membership thirty days before this meeting and is now proposed for adoption:

To repeal Articles II, III, and IV, of the present constitution, and substitute in place thereof a new Article II to read as follows:

Article II—Membership

Section 1. Any person in sympathy with the objects of the association shall be eligible to membership. All memberships shall be continuing and the dues therefor shall be paid annually unless the membership is discontinued by reason of death, resignation or non-payment of dues.

Sec. 2. The annual membership dues shall be five dollars, and shall be payable in advance, on the date of the application for membership, and annually thereafter. Any member who shall fail to pay his dues within one year from the date when payable shall be dropped from membership on account of such non-payment.

Sec. 3. All members not in arrears for annual dues shall be entitled to receive, without charge, one copy of the proceedings of the annual conference for the current year, and one copy of such reports, bulletins, pamphlets, and documents as may be issued by the association from time to time for general circulation.

It is proposed also that if this amendment is adopted all subsequent articles shall be appropriately renumbered, from III to XI, owing to the repeal of two articles.

THE CHAIRMAN: The amendment having been presented in accordance with the constitution, it is now before the association. Is there discussion?

MR. FRANK P. CRANDON (Illinois): I would like to ask just when the year begins.

THE CHAIRMAN: The fiscal year, by action of the association a year ago, ends June 30th.

MR. CRANDON: So the dues would be due—

THE CHAIRMAN: According to the terms of the resolution

dues are payable annually one year after the first dues are paid. That has been the practice for the last five years. Is there discussion?

MR. CHAS. J. TOBIN (New York): Is there a report as to the best phraseology for that particular amendment?

THE CHAIRMAN: The executive committee considered the matter of phraseology, and the phraseology read is in accordance with the opinion of the executive committee.

MR. TOBIN: I move that the amendment be adopted.

MR. J. H. MCCONLOGUE (Iowa): Several of us just came in the room, and are ignorant of the question under discussion.

THE CHAIRMAN: There is a resolution now pending for adoption by the association to amend the by-laws to the effect that the annual dues shall be \$5. It is the same resolution which, in substance, was approved at the informal meeting last night. Are you ready for the question.

The motion having been duly seconded, was put by the chair and unanimously carried.

THE CHAIRMAN: There is one other resolution or amendment before the association. The secretary will read.

The secretary then read the following amendment:

"That section 1 of present article VI be amended to read as follows:

"Section 1. The annual meeting of the association shall be held in connection with the annual conference and at such time as the executive committee may determine. Sixty days' notice shall be given to all members of the time and place at which such annual meeting is to be held."

This article will be renumbered IV, according to the amendments just adopted.

Mr. Tobin of New York moved the adoption of the amendment, and the motion was duly seconded.

THE CHAIRMAN: The change here, gentlemen, is solely from an arbitrary date the day after the conference, to such time during the conference as the executive committee shall determine. Are you ready for the question?

The motion prevailed.

THE CHAIRMAN: Several other amendments to the constitution were duly presented by two members, in accordance with

the constitution. The members who presented those resolutions gave notice yesterday evening that they themselves withdrew their support, whereupon the meeting unanimously resolved not to approve such resolutions. Is it your pleasure that those resolutions should again be presented?

MR. TOBIN: To clear the record and make it appear straight, I move that the amendments proposed be rejected by the conference.

MR. ARTHUR C. PLEYDELL (New Jersey): Second the motion. The motion was unanimously carried.

MR. PLEYDELL: I wish merely to say that several invitations have been extended for the next conference. One invitation for the next conference is from the Buffalo, N. Y. chamber of commerce, and with it a letter from the mayor of Buffalo, which I will read if desired. It is a courteous, formal invitation to hold the next conference at Buffalo, but as these matters are settled by the executive committee I will not read it at length. Another is from San Francisco to come in 1915. I have one from New Orleans.

MR. J. G. ARMSON (Minnesota): I move that the communications be referred to the executive committee.

The motion was seconded.

MR. DAN M. LINK (Indiana): Before the question is put allow me to say that the city of Indianapolis desires the next conference. I want to say in behalf of the state of Indiana, and I am especially commissioned by the Commercial Club of the city of Indianapolis to extend to the National Tax Association and this conference an invitation to hold the next meeting in the city of Indianapolis. As this comes before the executive committee we expect to take it up with the executive committee at the proper time, but we thought best to give notice to all the members present so that these other gentlemen might know that they would have competition.

MR. SAMUEL T. HOWE (Kansas): What kind of weather will you guarantee?

MR. LINK: It is always cool in summer and warm in winter.

PROF. JOHN E. BRINDLEY (Iowa): Mr. Chairman, I think I turned a communication over to Mr. Pleydell. Two or three weeks ago I received a communication from a committee in New Orleans extending an invitation to meet there.

MR. NILS P. HAUGEN (Wisconsin): I suppose the motion would include every invitation that has come to the association, and any invitation that may be extended to the association.

THE CHAIRMAN: It is so understood.

The motion was then put and carried.

THE CHAIRMAN: Is there further business to come before the association?

MR. THOS. S. ADAMS (Wisconsin): I have recently been elected secretary of this association. That means, so far as I personally am concerned, that this association hereafter will have to stand on its own bottom. Hitherto, owing to the efforts of Mr. Foote, and the devoted and unselfish labors of the chairman, Mr. Pleydell, Mr. Ryan, Mr. Heydecker and others, this association has been kept going. Now either it is worth the support of the membership or it ought to be allowed to die. A thing that cannot pay its own way is not worth attempting to protect and nourish artificially. I shall call upon the membership for such moderate support of the association as is necessary to keep it alive and vigorous. If it is not forthcoming I shall move its termination next year.

I want to take this occasion to thank those persons who have maintained the association in the past. I personally feel under the deepest obligation to those men, and we all do. I think that this meeting should not terminate without an expression of our deepest appreciation. We have taken occasion to express that so far as Mr. Foote is concerned. I want to extend it to the other members of the small band of officers who have laboriously, and with fidelity, kept this organization going through its infancy.

MR. J. A. BURNETTE (Kansas): Professor Adams did not go far enough. I was hoping he would name those men that have given so generously of their time and money and intelligence in organizing this association and keeping it going. As a mark of our appreciation of their work I move the thanks of this organization to Messrs. Purdy, Pleydell, Heydecker and Ryan.

MR. T. S. ADAMS (Wisconsin): Mr. Chairman, I beg the privilege of seconding that motion, and adding to it that this expression of appreciation be shown by a standing vote.

MR. BURNETTE: As the chairman is modest and as I moved the resolution, I will put the question.

The resolution prevailed by a unanimous rising vote.

MR. ALFRED E. HOLCOMB (New York): Professor Adams has touched upon a matter that seems to reach me in certain ways directly, and therefore I rise to express the opinion that you will undoubtedly hear from me in this matter also. I shall not be so very particular about the "moderate." He suggested a moderate support. I don't care much about what kind of support we have, whether it is moderate or immoderate. I would especially like to have it immoderate if you can reach that far down. This election was put upon me against my protest, but I want to emphasize the point that it shall be my desire in every way possible to contribute towards the success, in the fullest meaning of that term, of this association, so far as I can do it; and I shall count upon, and I know I can count upon, the support of those here now, as I know we have counted upon the support of those who have carried it on this far. I want to second heartily the remarks touching upon the officers whom we succeed.

THE CHAIRMAN: Gentlemen, I do not think very much need to be said, but I know that in speaking for my associates who have done the work, and for myself who has received more credit than is due, I might say what is in their hearts as well as mine, that we appreciate deeply the feelings that have been expressed tonight. With us all what we may have done was amply rewarded by the fruits that it brought. When we began we sought in ways that seemed small to make an impression, and the agency through which we worked grew and grew beyond our wildest expectation, and the impression that I think has been made upon the country is far beyond anything that we had hoped for when this association was started on the initiation of Mr. Foote. We are all of us grateful that you feel that our labors have helped toward the end that has

to a certain extent been achieved so far. I hope this is but a beginning for wider work in the future, and the officers elected tonight may feel sure that those most intimately connected with the association during the last five years will do all in their power to make their way as easy as may be and hold up their hands in the good work they have undertaken. (Applause.)

The meeting then adjourned.

APPENDIX

Delegates Representing States.
Delegates Representing Educational Institutions.
Visitors Other than Delegates.
Committees.
Constitution of the National Tax Association.

DELEGATES REPRESENTING STATES

ALABAMA:

A. A. Evans, Member State Tax Commission.....Montgomery
N. D. Godbold.....Camden
Robert B. Evans.....Greensboro
H. A. Skeggs.....Decatur
George A. Pegram.....Faunsdale
J. J. Callaghan.....Mobile

ARIZONA:

M. J. Cunningham, Banker.....Bisbee
C. M. Zander, Member State Tax Commission.....Buckeye
Thomas E. Campbell, Assessor.....Prescott
W. H. Aldrich, Director, Miami Copper Co.Miami
F. J. Elliott, Attorney.....Globe
Carroll W. Davis, Cattleman.....Kingman

ARKANSAS:

George Vaughan.....Little Rock
Henry W. Rector, Assistant Attorney General.....Forth Smith

COLORADO:

S. H. Alexander.....Denver
Ernest Barlow, County Assessor.....Glenwood Springs
T. D. Foster.....Cripple Creek
Samuel P. McCoon, County Assessor.....Pueblo
N. N. Smith.....Grand Junction
J. B. Phillips, Member Tax Commission.....Denver
J. Frank Adams, Member Tax Commission.....Denver
C. P. Link, Member Tax Commission.....Denver

CONNECTICUT:

William H. Corbin, State Tax Commissioner.....Hartford
Prof. Fred R. Fairchild, Member Special Commission on
Taxation.....New Haven
John J. Walsh, Chairman Special Commission on Taxation
.....Norwalk

DELAWARE:

Philip L. Cannon, Member State Revenue & Taxation Com-
missionBridgeville
Oliver A. Newton, Member State Revenue & Taxation Com-
missionBridgeville
George W. Sparks, Member State Revenue & Taxation Com-
missionWilmington

FLORIDA:

W. S. Jennings, Ex-Governor, Chairman Tax Commission... Jacksonville
 T. L. Clarke, Vice Chairman Tax Commission... Monticello
 E. S. Matthews, Ex-Member Legislature... Starke
 E. L. Crill, Ex-State Auditor... Palatka
 W. W. Flournoy, State Senator... DeFuniak Springs
 J. C. L'Engle, State Senator... Jacksonville

GEORGIA:

C. Murphy Candler, Chairman Railroad Commission... Atlanta
 E. L. Rainey... Dawson
 C. R. Ashley... Valdosta
 Fernor Barrett... Toccoa
 C. M. Morcock... Lawrenceville
 W. S. West... Valdosta

IDAHO:

Earl D. Farmin, Member Legislator... Sandpoint
 George Engington, State Senator... Idaho Falls
 Dow Dunning, State Senator... Wickahoney
 J. D. Robertson, Tax Agent, Board of Equalization... Weiser
 J. A. Burtill, Tax Agent, Board of Equalization... Mountain Home
 R. B. Wilson... Emmett

ILLINOIS:

Prof. John A. Fairlie, University of Illinois... Urbana
 Harrison B. Riley... Chicago
 W. H. Eubanks, Assistant State Auditor... Springfield
 Frank P. Crandon, Tax Commissioner Chicago & North-Western Ry. Co. ... Chicago

INDIANA:

C. C. Matson, Member State Board of Tax Commissioners... Greencastle
 Dan M. Link, Member State Board of Tax Commissioners... Auburn
 Fred A. Simms... Frankfort

IOWA:

B. F. Carroll, Governor... Des Moines
 A. C. Ripley, Member Special Tax Commission... Garner
 B. E. Stonebraker, Member Special Tax Commission... Rockwell City
 J. H. McConlogue, Member Special Tax Commission... Mason City
 Charles Voss, Member Special Tax Commission... Davenport
 John E. Brindley, Secretary Special Tax Commission... Ames

KANSAS:

Samuel T. Howe, Chairman State Tax Commission... Topeka
 J. A. Burnett, Member State Tax Commission... Topeka
 B. F. Milton, Member State Tax Commission... Topeka

KENTUCKY:

W. O. Davis, Chairman Tax Commission... Versailles
 W. J. Frost, Member Tax Commission... Wingo
 Peter Lee Atherton... Louisville
 Edward L. Young... Madisonville
 Charles K. Wheeler... Paducah
 William A. Robinson... Louisville
 Lewis W. Arnett... Covington
 John F. Hager... Ashland

LOUISIANA:

W. O. Hart, Member Special Tax Commission.....New Orleans

MAINE:

W. J. Thompson, State Assessor.....Augusta

Edward W. Wheeler.....Brunswick

MASSACHUSETTS:

Prof. C. J. Bullock, Professor of Economics, Harvard University.....Cambridge

W. D. T. Trefry, State Tax Commissioner.....Marblehead

Charles A. Andrews, Deputy Tax Commissioner.....Boston

MICHIGAN:

Roger I. Wykes, Chairman Commission of Inquiry into Taxation.....Grand Rapids

Prof. H. C. Adams, Member Commission of Inquiry into Taxation.....Ann Harbor

Patrick H. Kelley, Member Commission of Inquiry into Taxation.....Lansing

William B. Mershon.....Saginaw

Thomas B. White.....Escanaba

George B. Horton.....Fruit Ridge

Benjamin F. Burtless.....Manchester

MINNESOTA:

Samuel Lord, Member Tax Commission.....St. Paul

O. M. Hall, Chairman Tax Commission.....St. Paul

J. G. Armson, Member Tax Commission.....St. Paul

Carl L. Wallace, State Senator.....Minneapolis

R. C. Dunn, Representative.....Princeton

Albert Schaller, State Senator.....Hastings

MISSISSIPPI:

E. F. Nole, Ex-Governor.....Lexington

Duncan Thompson, State Auditor.....Jackson

Dr. F. M. Sheppard, President, Railroad Commission...Richton

George R. Edwards, Railroad Commissioner.....McCool

W. B. Wilson, Railroad Commissioner.....Jackson

Wirt Adams, State Revenue Agent.....Jackson

MISSOURI:

F. N. Judson.....St. Louis

William Marlon Reedy.....St. Louis

Prof. A. A. Young, Washington University.....St. Louis

Prof. George Melcher.....Jefferson City

Prof. Isidor Loeb, University of Missouri.....Columbia

NEBRASKA:

W. S. Delano, Chairman Tax Section Rural Life Commission.....Lincoln

A. R. Wilson.....Alliance

Frank G. Odell, Secretary Rural Life Commission.....Lincoln

W. F. Baxter.....Omaha

L. J. Quinby.....Omaha

W. C. Ure.....Omaha

E. V. Parish.....Omaha

Walter E. Wood.....South Omaha

F. E. Scott.....South Omaha

G. L. Carlson.....Norfolk

W. F. Tannehill.....Norfolk

J. B. Grinnell.....Papillion

J. A. Amsberry.....Mason City
 A. M. Templin, Member Tax Section Rural Life Commis-
 sionPalmer
 Dr. J. F. Young.....Fremont
 John Murray.....Westerville
 Prof. A. E. Sheldon, Director Legislative Reference Library
Lincoln
 Rev. A. L. Westherly.....Lincoln
 P. M. Wichstrom.....Lincoln
 W. L. Lock.....Lincoln
 A. G. Wray.....York
 L. V. Guye.....Lincoln
 G. C. Noble.....Crete
 T. H. Clifford.....York
 L. S. Loomer.....York
 Albert Watkins, State Historical Society.....Lincoln

NEVADA:

H. F. Bartine.....Carson City
 J. F. Shaughnessy.....Carson City
 W. H. Simmons.....Reno
 W. K. Freudenberger.....Carson City

NEW HAMPSHIRE:

Albert O. Brown, Chairman Tax Commission.....Manchester
 W. B. Fellows, Member Tax Commission.....Tilton
 John T. Amey, Member Tax Commission.....Lancaster
 J. S. Matthews.....Concord
 Raymond B. Stevens.....Landall
 Prof. J. W. Sanborn.....Gilmanton

NEW JERSEY:

Frank B. Jess, President State Board of Equalization.....
Haddon Heights
 Carlton B. Pierce, Member Special Tax Commission...Cranford
 Albert R. McAllister, Member Special Tax Commission..Bridgeton
 Thomas B. Usher, Member Special Tax Commission..Jersey City
 Arthur C. Pleydell, Member Special Tax Commission.....
North Plainfield

NEW MEXICO:

Howell Earnest, Traveling Auditor & Bank Examiner..Santa Fe
 John S. Clark, State Senator.....Las Vegas
 Summers Burkhart, Legal Advisor to the Governor..Albuquerque
 W. M. Atkinson.....Roswell
 C. E. McGinnis.....Santa Rosa
 M. U. Vigil.....Albuquerque

NEW YORK:

Thomas F. Byrnes, Chairman State Tax Commission....Albany
 William H. Sullivan, Member State Tax Commission....Albany
 Benjain E. Hall, Member State Tax Commission.....Albany
 Charles J. Tobin, Assistant Secretary State Tax Commission
Albany
 Lawson Purdy, President Department of Taxes and Assess-
 ments.....New York City
 E. L. Heydecker, Assistant Tax Commissioner...New York City
 F. L. Devereaux.....New York City

NORTH DAKOTA:

Prof. L. E. Birdzell, Chairman Tax Commission.....Bismarck
 George E. Wallace, Member Tax Commission.....Bismarck

Frank E. Packard, Member Tax Commission.....Bismarck
 James E. Boyle, Professor of Economics, University of North
 Dakota.....Grand Forks

OHIO:

Prof. George W. Coullon.....Hudson
 George E. Pomeroy, President State Board of Commerce..Toledo
 Nelson W. Evans.....Portsmouth

OKLAHOMA:

Fred Parkinson, State Examiner & Inspector...Oklahoma City
 John W. Shartel, Vice President Oklahoma City Ry. Co. ...
Oklahoma City
 Frank Dale, Attorney.....Guthrie
 J. M. Givens, Attorney.....Muskogee
 Frank Orr, Secretary State Board of Equalization..Oklahoma City
 C. F. Colcord, President Taxpayers' Association..Oklahoma City
 C. J. Wrightsman, Attorney.....Tulsa
 Charles West, Attorney General.....Oklahoma City
 R. E. Gish, Assistant Attorney General.....Oklahoma City

OREGON:

J. B. Eaton, Member Tax Commission.....Salem
 C. V. Galloway, Member Tax Commission.....Salem
 C. C. McColloch, State Senator, Member Legislative Tax
 CommitteeBaker
 C. P. Strain, County Assessor.....Pendleton
 C. L. Hawley, State Senator, Member Legislative Tax Com-
 mitteeMcCoy
 F. W. Mulkey, Attorney.....Portland
 B. D. Sigler, County Assessor.....Portland
 C. A. Bigelow, Representative, Member Legislative Tax Com-
 mitteePortland
 A. J. Derby, Representative, Member Legislative Tax Com-
 mittee.....Hood River

PENNSYLVANIA:

William C. Sproul, Member Joint Legislative Committee to
 Report on Revision of Revenue Laws.....Chester
 James E. Woodward, Member Joint Legislative Committee to
 Report on Revision of Revenue Laws.....McKeesport
 Francis S. Brown.....Philadelphia

RHODE ISLAND:

Zenas W. Bliss, Chairman Board of Tax Commissioners...
Providence
 Frank E. Davis, Member of Board of Tax Commissioners
Providence
 Jeremiah P. Mahoney, Member of Board of Tax Commis-
 sionersProvidence
 Edward P. Toble, Clerk, Committee on Taxation Laws....
Providence

SOUTH CAROLINA:

George R. Rembert.....Columbia
 D. H. Magill.....Greenwood
 J. W. Ashley.....Honea Path

SOUTH DAKOTA:

Thomas Sterling.....Vermillion
 J. B. Hanten.....Watertown
 H. K. Warren.....Yankton

TENNESSEE:

C. D. Mitchell.....Chattanooga
 G. N. Tillman.....Nashville
 Samuel M. Williamson.....Memphis
 G. F. Spence.....Knoxville
 Joseph Frank.....Nashville
 Dorsey B. Thomas.....Camden

TEXAS:

A. L. Love, State Tax Commissioner.....Austin
 H. B. Rice, Mayor.....Houston
 J. F. Sayers, Ex-Governor.....Austin
 W. M. Holland, Mayor.....Dallas
 W. D. Davis, Mayor.....Ft. Worth
 Bryan Callahan, Former Mayor.....San Antonio

UTAH:

Harden Bennion, Chairman Board of Commissioners on Revenue & Taxation.....Salt Lake City
 C. S. Patterson, Member Board of Commissioners on Revenue & Taxation.....Salt Lake City
 F. W. Kirkham, Member Board of Commissioners on Revenue & Taxation.....Salt Lake City

VERMONT:

L. P. Slack, Lieutenant-Governor.....St. Johnsbury

WEST VIRGINIA:

Fred O. Blue, State Tax Commissioner.....Charleston
 W. W. Hughes.....Welch
 D. B. Smith.....Huntington
 Charles P. Swint.....Weston
 Millard Snyder.....Clarksburg

WISCONSIN:

Nils P. Haugen, Chairman Tax Commission.....Madison
 Thomas E. Lyons, Member Tax Commission.....Madison
 Thomas S. Adams, Member Tax Commission.....Madison
 T. L. Cleary, Assessor of Incomes.....Platteville
 Carroll Atwood, Assessor of Incomes.....Milwaukee
 K. K. Kennan, Supervisor of Income Tax.....Madison

WYOMING:

John McGill, State Tax Commissioner.....Cheyenne
 I. C. Newlin, State Bank Examiner..... ?

DELEGATES APPOINTED BY PRESIDENTS OF EDUCATIONAL INSTITUTIONS

University of Arizona, Tucson, Arizona.

H. A. E. Chandler.

University of Arkansas, Fayetteville, Arkansas.

J. F. Mays.

Leland Stanford Junior University, Stanford University, California.

Dr. Henry A. Millis.

University of Colorado, Boulder, Colorado.

Prof. John B. Phillips (Now State Tax Commissioner).

Yale University, New Haven, Connecticut.

Prof. Fred R. Fairchild.

- University of Florida, Gainesville, Florida.
Prof. L. L. Bernard.
- University of Georgia, Athens, Georgia.
Dr. J. H. McPherson.
- Northwestern University, Chicago, Illinois.
Frank P. Crandon.
- University of Chicago, Chicago, Illinois.
Prof. L. C. Marshall.
- Grinnell College, Grinnell, Iowa.
Prof. J. W. Gannaway.
- Parsons College, Fairfield, Iowa.
President W. E. Parsons; Dean Harry M. Gage.
- Morning Side College, Sioux City, Iowa.
Prof. F. E. Haynes.
- Simpson College, Indianola, Iowa.
Prof. S. H. Dodson.
- Des Moines College, Des Moines, Iowa.
Dean David E. Cloyd.
- Cornell College, Mt. Vernon, Iowa.
Dr. H. H. Freer.
- Iowa State College, Ames, Iowa.
Prof. J. E. Brindley.
- Leander Clark College, Toledo, Iowa.
President F. E. Brooks.
- State University of Iowa, Iowa City, Iowa.
Prof. I. A. Loos.
- Iowa State Teachers College, Cedar Falls, Iowa.
Prof. Reuben McKittrick.
- Iowa Wesleyan University, Mt. Pleasant, Iowa.
President Edwin A. Schell.
- Drake University, Des Moines, Iowa.
Prof. F. I. Herriott.
- University of Maine, Orono, Maine.
Prof. G. W. Stevens.
- Johns Hopkins University, Baltimore, Maryland.
Prof. J. H. Hollander.
- Harvard University, Cambridge, Massachusetts.
Prof. Charles J. Bullock.
- University of Michigan, Ann Arbor, Michigan.
Prof. David Friday.
- University of Minnesota, Minneapolis, Minnesota.
Prof. E. V. Robinson.
- University of Missouri, Columbia, Missouri.
President A. Ross Hill; Dean Isidor Loeb.
- University of Montana, Missoula, Montana.
Prof. J. H. Underwood.
- University of Nebraska, Lincoln, Nebraska.
Prof. George O. Virtue.
- University of Nevada, Reno, Nevada.
President J. E. Stubbs.
- University of North Dakota, Grand Forks, North Dakota.
Prof. James E. Boyle.

- Oberlin College, Oberlin, Ohio.
Prof. Karl F. Gelsner.
- Case School of Applied Science, Cleveland, Ohio.
Dr. Charles S. Howe.
- Miami University, Oxford, Ohio.
Prof. Edwin S. Todd.
- University of Cincinnati, Cincinnati, Ohio.
Prof. F. C. Hicks.
- Western Reserve University, Cleveland, Ohio.
Prof. C. C. Arbuthnot.
- University of Pittsburgh, Pittsburgh, Pennsylvania.
Dr. Thomas W. B. Crafer.
- University of Texas, Austin, Texas.
Prof. L. H. Haney.
- University of Washington, Seattle, Washington.
Dr. Vanderveer Custis.

VISITORS OTHER THAN DELEGATES

COLORADO:

S. E. Hamer, Denver.

ILLINOIS:

O. Blackrum, Chicago.
H. D. Howe, Chicago.
H. W. Paddock, Chicago.
W. L. Tarbet, Land & Tax Commissioner, I. C. R. R. Chicago.

INDIANA:

P. M. Martin, Indianapolis.

IOWA:

W. H. Cohen, Iowa Tax Commission, Des Moines.
A. H. Davison, Secretary Executive Council, Des Moines.
S. A. Montis, Des Moines.
Frank H. Noble, Des Moines.
Frank G. Pierce, Secretary League of Iowa Manufacturers, Marshalltown.
J. F. Wall, Revenue and Tax Department, Des Moines.

KANSAS:

J. A. Burnett, Topeka.

MICHIGAN:

Dallas Bondeman, Kalamazoo.
S. H. Kelley, Lansing.

NEBRASKA:

Prof. Albert Watkins, University of Nebraska, Lincoln.

NEVADA:

W. K. Frendenberger, Carson City.

NEW HAMPSHIRE:

Joseph S. Matthews, Legacy Tax Attorney, Concord.

NEW JERSEY:

John D. Carroll, Member Tax Commission, Newark.
John Howe, Member Tax Commission, Newark.

Thomas Preston, Member Tax Commission, Newark.
 M. Ruchman, Newark.
 A. W. Swain, Member Tax Commission, Newark.

NEW YORK:

J. N. Ferry, Tax Agent N. Y. Telephone Co., New York City.
 Charles Hansel, New York City.
 Alfred E. Holcomb, Assistant Secretary American Telephone & Telegraph Co., New York City.
 William Ryan, Assistant Secretary New York Tax Reform Association, New York City.
 Francis N. Whitney, Tax Attorney Western Union Telegraph Co., New York City.

OHIO:

Allen R. Foote, Columbus.
 Joseph Moses, Cincinnati.

OKLAHOMA:

J. B. E. Gish, Oklahoma City.
 Fred Parkinson, State Examiner & Inspector, Oklahoma City.
 Charles West, Oklahoma City.

PENNSYLVANIA:

S. G. Cramp, Assistant Real Estate Agent Penna. Lines, Pittsburgh.
 C. B. Heisennan, General Solicitor Penna. Lines, Pittsburgh.
 Thomas W. Hulme, Philadelphia.
 W. W. Kiehl, Tax Agent P. L. E. R. R. Pittsburgh.

RHODE ISLAND:

W. P. Tobie, Chief Clerk Board of Tax Commissioners, Providence.

SOUTH DAKOTA:

Frederick W. Roman, Vermillion.

WASHINGTON, D. C.:

M. Markham Flannery, Bureau of Corporations.

WISCONSIN:

Louis A. Arnold, Tax Commissioner, Milwaukee.
 A. S. Dudley, Tax Commissioner C. M. & St. P. Ry. Co., Milwaukee.
 John Harrington, Inheritance Tax Investigator, Madison.

COMMITTEE ON RESOLUTIONS

C. M. Zander.....	Arizona
J. Frank Adams.....	Colorado
John J. Walsh.....	Connecticut
George W. Sparks.....	Delaware
Dow Dunning.....	Idaho
Frank P. Crandon.....	Illinois
Dan M. Link.....	Indiana
J. E. Brindley.....	Iowa
J. A. Burnette.....	Kansas
W. A. Frost.....	Kentucky
W. O. Hart.....	Louisiana
W. J. Thompson.....	Maine

C. J. Bullock.....	Massachusetts
J. G. Armson.....	Minnesota
Laurie J. Quinby.....	Nebraska
J. F. Shaughnessy.....	Nevada
Jos. S. Matthews.....	New Hampshire
Frank B. Jess.....	New Jersey
Summers Burkhardt.....	New Mexico
Benjamin E. Hall.....	New York
George E. Wallace.....	North Dakota
E. S. Todd.....	Ohio
Frank Orr.....	Oklahoma
Charles V. Galloway.....	Oregon
Zenas W. Bliss.....	Rhode Island
H. K. Warren.....	South Dakota
F. W. Kirkham.....	Utah
L. P. Slack.....	Vermont
Vanderveer Curtis.....	Washington
N. P. Haugen.....	Wisconsin

COMMITTEE ON CREDENTIALS

Samuel T. Howe.....	Kansas
Wm. H. Corbin.....	Connecticut
Wm. B. Fellows.....	New Hampshire
Harden Bennion.....	Utah
Col. C. C. Matson.....	Indiana

COMMITTEE ON PROGRAM

Wm. Ryan.....	New York
C. P. Link.....	Colorado
Thomas B. Usher.....	New Jersey
F. B. Garver.....	Illinois
W. F. Baxter.....	Nebraska

DES MOINES COMMITTEE

M. H. Cohen
 Geis Botsford
 John E. Brindley

CONSTITUTION OF THE NATIONAL TAX ASSOCIATION

As amended at its Sixth Annual Meeting, held at Des Moines, Iowa, September 5, 1912

ARTICLE I

NAME AND OBJECTS

SECTION 1. **The name** of this association shall be, "National Tax Association."

SEC. 2. **Its objects** shall be to formulate and announce, through the deliberately expressed opinion of an annual conference, the best informed economic thought and ripest administrative experience available for the correct guidance of public opinion, legislative and administrative action on all questions pertaining to state and local taxation, and to interstate comity in taxation.

ARTICLE II

MEMBERSHIP

SECTION 1. Any person in sympathy with the objects of the association shall be eligible to membership. All memberships shall be continuing and the dues therefor shall be paid annually unless the membership is discontinued by reason of death, resignation or non-payment of dues.

SEC. 2. **The annual membership** dues shall be five dollars, and shall be payable in advance, on the date of the application for membership, and annually thereafter. Any member who shall fail to pay his dues within one year from the date when payable shall be dropped from membership on account of such non-payment.

SEC. 3. All members not in arrears for annual dues shall be entitled to receive, without charge, one copy of the proceedings of the annual conference for the current year, and one copy of such reports, bulletins, pamphlets, and documents as may be issued by the association from time to time for general circulation.

ARTICLE III

ANNUAL CONFERENCE

SECTION 1. **An annual national conference** on state and local taxation shall be held under the auspices of this associa-

tion during the month of September in each year, or at such time and place as its executive committee may determine. The details of each conference shall be arranged by the executive committee in co-operation with such special and standing committees as may be created by this association at its annual meetings for such purpose.

SEC. 2. The administrative personnel of each annual conference shall be composed of three delegates appointed by the governor of each state, and public officials holding legislative or administrative positions charged with the duty of investigating, legislating upon, or administering tax laws.

SEC. 3. The educational personnel of each annual conference shall be composed of persons identified with universities and colleges that maintain a special course in public finance, or at which that subject receives special attention in a general course of economics; members of the profession of certified public accountants; and public men, editors, writers and speakers who hold no educational or official position but who have developed a special interest in the subject of state and local taxation.

SEC. 4. The voting power in each conference upon any question involving an official expression of the opinion of the conference shall be vested in delegates appointed by governors of states; universities and colleges, or institutions for higher education, and state associations of certified public accountants, each of whom shall have one vote.

SEC. 5. Voting by proxy shall not be allowed.

SEC. 6. No member of this association shall have the right to vote in any annual conference by virtue of such membership.

SEC. 7. The last session of each annual conference, or so much of it as may be necessary, shall be devoted to the consideration of the report of the conference committee on resolutions and conclusions. The report of this committee, as adopted by the conference, shall be its official expression of opinion, and it shall not be held to have endorsed any other expression of opinion by whomever made. The voting power of the conference upon an official expression of its opinion, is limited with the purpose of safeguarding the conference from the possibility of having its expression of opinion influenced by any class interest; or consideration for those who devote their time to the work or management of this association; or favor for those who contribute money for its support. The annual conference will be the means used by the association for carrying into practical effect its purpose to secure an expression of opinion that will formulate and announce the best informed economic thought and ripest administrative experi-

ence available for the correct guidance of public opinion, legislative and administrative action on all questions pertaining to state and local taxation, and to interstate comity in taxation.

SEC. 8. Organization of the Conference. The temporary and permanent chairman; secretary and official stenographer; address of welcome and response to the same; meeting place, accommodations for delegates, and all necessary preliminary details for each conference, and also the program of papers and discussions, shall be arranged for the conference by the executive committee of this association. All other details of the organization and work of the conference shall be arranged by the delegates present in such manner as they may from time to time decide.

ARTICLE IV

ANNUAL AND SPECIAL MEETINGS OF THE ASSOCIATION

SECTION 1. The annual meeting of the association shall be held in connection with the annual conference and at such time as the executive committee may determine. Sixty days' notice shall be given to all members of the time and place at which such annual meeting is to be held.

SEC. 2. Special meetings of this association may be held at any time and place, when called by its executive committee. At least thirty days' notice shall be given to all members, of each special meeting, which notice shall specify the purpose for which the meeting is called, and no business shall be transacted at such meeting other than that specified in the call.

SEC. 3. A majority of all members present at any annual or special meeting of this association shall constitute a quorum for the transaction of business, but such quorum shall at no time be less than fifteen, and whenever the attendance of members and delegates exceeds one hundred, twenty-five shall constitute a quorum.

ARTICLE V

OFFICERS AND EXECUTIVE COMMITTEE

SECTION 1. The work and affairs of this association shall be administered by a president, a vice-president, a secretary, a treasurer and an executive committee, consisting of the president, vice-president, secretary and nine additional members, all of whom shall be elected by the association at its annual meeting to serve for one year and until their successors are duly elected. Two honorary members of the executive committee may be elected representing the Dominion of Canada,

but such members shall not be entitled to vote on any question affecting the taxation policy of any state.

SEC. 2. The terms of all officers, the members of the executive committee, and of the members of all standing committees created by this association, shall begin thirty days after the date of its annual meeting.

SEC. 3. A vacancy in any office or in the membership of the executive committee or of any standing committee may be filled by the executive committee for the unexpired term.

ARTICLE VI

DUTIES OF OFFICERS AND COMMITTEES

SECTION 1. The officers of this Association shall perform the customary duties of their respective offices, and such other duties as may be assigned to or required of them from time to time by its executive committee, or by the association.

SEC. 2. When compensation is paid to any officer of this association, the amount thereof shall be fixed by the executive committee, and payment shall be made only as authorized by that committee.

SEC. 3. The Executive Committee shall have power to appoint additional officers, heads of departments and agents, from time to time, prescribe their duties, fix their term of office, and their compensations, and also to appoint standing or special committees and prescribe their powers and duties. All committees appointed by the executive committee shall report to that committee.

SEC. 4. The Executive Committee and all standing committees created by this association shall perform such general and special duties as may be assigned to them by the association.

SEC. 5. Such Standing and Special Committees may be created from time to time by this association as may be deemed necessary for the efficient promotion of the work being undertaken. All committees appointed by the association shall report to the association.

ARTICLE VII

FINANCIAL MANAGEMENT

SECTION 1. This Association, its Executive Committee, or any of its officers, agents, or employees shall have no power to contract a debt, or liability of any kind, for which the association or its members collectively or individually can be held responsible, in excess of the amount of its funds available for the payment of the same.

SEC. 2. The fiscal year of the association shall begin with the first day of the month of July and end with the last day of the month of June in each year.

SEC. 3. The accounts of the Association for each fiscal year shall be closed on the 30th day of June in each year. They shall be audited by a chartered or certified public accountant, who shall certify to the correctness of the financial reports submitted to the association in its annual meeting.

ARTICLE VIII

GENERAL OFFICES AND LIBRARY

SECTION 1. The offices and library of this association shall be established and maintained at such place or places as may be determined by its executive committee.

SEC. 2. This Association shall accumulate and properly index, as rapidly as its funds will permit, a reference and circulating library which shall contain one or more copies of every useful leaflet, pamphlet, address, document, and book on the subject of state and local taxation. As far as is possible with the funds available for the purpose, this library shall be kept continuously written up to date and indexed so as to enable its custodian to supply on application correct and full reference to all authorities on any phase of the subject of state and local taxation, the decisions of courts, the statistical results of taxation laws and of changes made in such laws from time to time.

SEC. 3. The services of this library shall be without charge to all members of this association and to all legislative, executive, and judicial officers of states and of their political subdivisions, and to every person desiring to study, discuss or speak upon any feature of the subject of state and local taxation.

ARTICLE IX

PROCEEDINGS AND PUBLICATIONS

SECTION 1. At each annual meeting the association shall elect, or authorize its president to appoint, a standing publication committee, under whose supervision a full report of the proceedings of the annual conference last held shall be edited and published. This committee shall also edit and supervise the publication of all reports, pamphlets, and literature in other forms issued by this association.

SEC. 2. The Executive Committee shall authorize the terms of sale or of distribution of all publications issued by this association.

ARTICLE X**BY-LAWS**

SECTION 1. **The Executive Committee** is authorized to formulate, adopt, and from time to time amend, such by-laws as it may deem necessary for the good government of the affairs of this association, and of the official conduct of its officers and committees.

ARTICLE XI**AMENDMENTS**

SECTION 1. **This Constitution** may be amended at any annual or special meeting of this association by a two-thirds vote of all members present, **PROVIDED**, the full text of the amendment shall have been submitted to the membership by the executive committee or by the member or members proposing the same, at least thirty days before the date of the meeting at which such proposed amendment is acted upon.

NATIONAL TAX ASSOCIATION

EDWIN R. A. SELIGMAN, *President*,
McVickar Professor of Political Economy, Columbia University,
New York.

SAMUEL T. HOWE, *Vice President*,
Chairman, Kansas Tax Commission, Topeka, Kansas.

ALFRED E. HOLCOMB, *Treasurer*,
Asst. Secretary, American Telephone & Telegraph Company,
New York City.

T. S. ADAMS, *Secretary*,
State Tax Commissioner, Madison, Wisconsin.

OBJECT: "To formulate and announce, through the deliberately expressed opinion of an annual conference, the best informed economic thought and administrative experience available for the correct guidance of public opinion, legislative and administrative action on all questions pertaining to state and local taxation, and to interstate and international comity in taxation."

MEMBERSHIP: The National Tax Association has no creed. Its program is mutual education; its object is to make tax laws simpler, saner, more just and more effective. It welcomes representatives of every creed, school and interest and desires the support of every one interested in securing more equitable and more business-like methods of taxation.

DUES: The annual dues are five dollars a year. All members receive without charge a copy of the proceedings of the annual conference for the current year. Correspondence may be addressed to the secretary or treasurer. All remittances for dues or purchases should be sent to the treasurer.

PUBLICATIONS: Six volumes of proceedings have been published. These six volumes, cloth-bound, with adequate indexes, and containing in the aggregate over 3,000 pages, represent the best collection of up-to-date practical literature on state and local taxation now available. The contributions are from experts; they represent for the most part the experience and ideas of men constantly working in the field of taxation; they are of practical value to instructors and students in economics, to legislators considering the enactment of tax laws, to administrators engaged in the execution of tax laws, and to taxpayers who feel the burden of tax laws. Members receive the current volume free and are entitled to buy copies of the proceedings of previous years for one dollar a volume. To others the price of the current volume is three dollars, and of previous volumes two dollars each. There are now available copies of the proceedings for 1907, 1909, 1910, 1911 and 1912. The volume for 1908 is out of print. Membership and the five volumes now in print may be secured for \$9.

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(Columbus Conference)

(Papers marked * have been reprinted in pamphlet form.)

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*INTERSTATE COMITY IN TAXATION.

Frederick N. Judson, Chairman Special Tax Commission, St. Louis, Missouri.

THE ECONOMIC AND STATISTICAL VALUE OF UNIFORM STATE LAWS ON THE SUBJECT OF STATE AND LOCAL TAXATION.

L. G. Powers, Chief Statistician of Bureau of Census.

*OUTLINE OF A MODEL SYSTEM OF STATE AND LOCAL TAXATION.

Lawson Purdy, President of Department of Taxes and Assessments, New York City.

*CONSTITUTIONAL LIMITATIONS AFFECTING TAXATION.

Prof. Isidor Loeb, University of Missouri.

UNIFORM PUBLIC ACCOUNTING.

Joseph T. Tracy, Chief Deputy of the Ohio State Bureau of Uniform Public Accounting.

ACCOUNTING FOR THE PROCEEDS OF ALL COLLECTIONS OF TAXES AND PUBLIC CHARGES AND DISBURSEMENTS OF EVERY KIND.

Harry B. Henderson, State Examiner of Public Accounts, Wyoming.

CENTRALIZED TAX ADMINISTRATION IN MINNESOTA AND WISCONSIN.

Dr. Raymond V. Phelan, University of Minnesota.

*HOME RULE IN TAXATION.

Solomon Wolff, Member Louisiana State Tax Commission.

LIMITATIONS OF THE PURPOSES FOR WHICH TAXES MAY BE LEVIED.

Prof. Isaac A. Loos, State University of Iowa.

*METHODS OF ASSESSMENT AS APPLIED TO DIFFERENT CLASSES OF SUBJECTS.

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Prof. George Coray, University of Utah.

THE RELATION OF FEDERAL TO STATE AND LOCAL TAXATION.

Prof. H. Parker Willis, George Washington University.

*TAXATION OF INHERITANCES.

Prof. Joseph H. Underwood, University of Montana.

TAXATION OF INHERITANCES.

Dr. Max West, Bureau of Corporations, Washington, D. C.

***THE POSITION OF THE INHERITANCE TAX IN THE AMERICAN SYSTEM OF TAXATION.**

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Prof. Charles Lee Raper, University of North Carolina.

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A. C. Shaw, U. S. Forest Service.

RATING ON UNIMPROVED VALUES IN NEW ZEALAND.

Prof. James Edward Le Rossignol, University of Denver, and William Downie Stewart, of Dunedin, New Zealand.

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C. B. Fillebrown, President of the Massachusetts Single Tax League.

***THE TAXATION OF UNEARNED INCREMENTS.**

Prof. H. J. Davenport, University of Chicago.

SOME GENERAL CONSIDERATIONS CONCERNING SOVEREIGNTY AND TAXATION.

Prof. Lindley M. Keasbey, University of Texas.

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Prof. Samuel Peterson, University of Texas.

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***TAXATION OF MONEY AND CREDITS.**

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Prof. John H. MacCracken, New York University.

***THE TAXATION OF REAL ESTATE AND REAL ESTATE IMPROVEMENTS.**

F. A. Derthick, Master Ohio State Grange.

***MUNICIPAL TAXATION OF INTANGIBLE WEALTH.**

Prof. Jacob H. Hollander, Johns Hopkins University.

***REFORM IN MUNICIPAL TAXATION.**

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***INCIDENCE OF TAXATION.**

A. C. Pleydell, Secretary of New York Tax Reform Association.

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Prof. Robert J. Sprague, University of Maine.

***GENERAL PROPERTY TAX AS A SOURCE OF STATE REVENUE.**

Prof. J. H. T. McPherson, University of Georgia.

***SEPARATION OF STATE AND LOCAL REVENUES.**

Prof. Edwin R. A. Seligman, Columbia University.

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Prof. Joseph A. Beck, Western University of Pennsylvania.

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William O. Matthews, Attorney of Ohio Tax League.

***TAXATION OF LIFE AND FIRE INSURANCE CORPORATIONS.**

Prof. Solomon S. Huebner, University of Pennsylvania.

***TAXATION OF COMPETITIVE INDUSTRIAL CORPORATIONS.**

Theodore Sutro, Chairman Committee on Taxation, American Bar Association.

***TAXATION OF PUBLIC SERVICE CORPORATIONS.**

Prof. Carl C. Plehn, University of California.

SPECIAL FRANCHISE TAXATION IN NEW YORK.

George S. Coleman, Assistant Corporation Counsel, City of New York.

***TAXATION OF PUBLIC SERVICE CORPORATIONS.**

Prof. Adam Shortt, Queens University.

***RELATION OF FRANCHISE TAXATION TO SERVICE RATES.**

Allen Ripley Foote, President National Tax Association.

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Fred Rogers Fairchild, Assistant Professor of Political Economy, Yale University, New Haven, Connecticut.

***TAXATION OF FOREST LANDS.**

A. C. Shaw, Principal Examiner, United States Forest Service.

***FOREST TAXATION AND CONSERVATION AS PRACTICED IN CANADA.**

Dean B. E. Fernow, Faculty of Forestry, University of Toronto, Toronto, Ontario.

(These three addresses, and the discussion of forest taxation, reprinted together.)

***CO-OPERATION BETWEEN STATE AND LOCAL AUTHORITIES IN THE ASSESSMENT OF REAL ESTATE.**

Matthew B. Hammond, Professor of Economics, Ohio State University, Columbus, Ohio.

***THE TAXATION OF INTANGIBLE PROPERTY.**

Charles J. Bullock, Professor of Economics, Harvard University, Cambridge, Massachusetts.

***THE FARMERS AND THE GENERAL PROPERTY TAX.**

F. A. Derthick, Master State Grange, Mantua, Ohio.

***TAXATION OF MONEY AND CREDITS.**

J. H. Easterday, Former Member State Tax Commission, Tacoma, Washington.

CANADIAN METHODS OF TAXING CORPORATIONS.

Prof. James Mavor, University of Toronto, Toronto, Ontario.

INHERITANCE TAX LAWS.

William H. Corbin, State Tax Commissioner, Hartford, Connecticut.

THE TAXATION OF INHERITANCES.

S. S. Huebner, Assistant Professor of Commerce and Insurance, University of Pennsylvania, Philadelphia, Pennsylvania.

DISCUSSION OF INHERITANCE TAXATION.

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***THE IMPORTANCE OF PRECISION IN ASSESSMENTS.**

E. R. A. Seligman, Professor of Political Economy, Columbia University, New York.

***CITY REAL ESTATE ASSESSMENT.**

Lawson Purdy, President of Department of Taxes and Assessments, New York, N. Y.

***PUBLICATION OF ASSESSMENT LISTS.**

James E. Boyle, Professor of Economics and Political Science, University of North Dakota, Grand Forks, North Dakota.

BUSINESS ASSESSMENTS AS A SUBSTITUTE FOR PERSONAL PROPERTY TAX.

James C. Forman, Assessment Commissioner, Toronto, Ontario.

TAXATION SYSTEMS OF NORTHWEST CANADA.

Theodore A. Hunt, City Solicitor, Winnipeg, Manitoba.

TAX SYSTEM OF THE PROVINCE OF ALBERTA.

John Perrie, Tax Commissioner, Edmonton, Alberta.

TAXATION IN BRITISH COLUMBIA.

John B. McKilligan, Provincial Surveyor of Taxes, Victoria, B. C.

TAXATION OF LIFE ASSURANCE COMPANIES IN CANADA.

T. Bradshaw, Managing Director, Imperial Life Assurance Co., Toronto, Ontario.

TAXATION OF LIFE INSURANCE IN THE UNITED STATES.

Robert Lyn Cox, General Counsel and Manager, Association of Life Insurance Presidents, New York, N. Y.

THE TAXATION OF MINERAL RESOURCES IN CANADA.

Prof. Oscar D. Skelton, Queens University, Kingston, Ontario.

TAXATION OF COAL, OIL, AND GAS.

T. C. Townsend, Department of Taxation of the State of West Virginia, Charleston, West Virginia.

***THE TAXATION OF MINERAL PROPERTIES.**

Frank L. McVey, Chairman of the Minnesota Tax Commission, St. Paul, Minnesota.

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Joseph A. De Boer, President National Life Insurance Co., Montpelier, Vermont.

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Frederick L. Hoffman, Statistician, The Prudential Insurance Co., Newark, New Jersey.

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W. O. Hart, Member Louisiana Special Tax Commission, New Orleans, Louisiana.

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William H. Corbin, State Tax Commissioner, Hartford, Connecticut.

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Thomas A. Parish, State Tax Commissioner, Seattle, Washington.

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William A. Robinson, Member State Tax Revision Commission, Louisville, Ky.

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T. C. Townsend, State Tax Commissioner, Charleston, W. Va.

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Allen R. Foote, President Ohio State Board of Commerce, Columbus, Ohio.

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Robert H. Shields, Member Michigan State Board of Assessors, Houghton, Mich.

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Courtenay Crocker, Attorney, Boston, Mass.

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***REPORT OF COMMITTEE ON UNIFORM CLASSIFICATION OF REAL ESTATE.**

Chairman, T. C. Townsend, State Tax Commissioner, Charleston, W. Va.

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Arthur C. Pleydell, Secretary National Tax Association.

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TAX LEGISLATION IN NEW YORK, 1911.

Edward L. Heydecker, Assistant Tax Commissioner, City of New York; Secretary Utica Tax Conference.

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Prof. Carl C. Plehn, University of California, Berkeley, Cal.;
Secretary California Special Tax Commission.

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Herbert Knox Smith, Commissioner of Corporations, Washington, D. C.

ASSESSMENT OF PUBLIC SERVICE CORPORATIONS.

Alfred E. Holcomb, Assistant Secretary, American Telephone and Telegraph Co., New York.

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STATE TAX ON LOCAL GOVERNMENT INCOMES: A SUBSTITUTE FOR STATE GENERAL PROPERTY TAX.

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APPORTIONMENT OF STATE TAXES ON BASIS OF LOCAL REVENUE.

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REPORT OF COMMITTEE TO CO-OPERATE WITH THE CENSUS BUREAU.

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REPORT OF COMMITTEE ON AN OFFICIAL JOURNAL.

Chairman, Prof. T. S. Adams, State Tax Commissioner, Madison, Wis.

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THE NORTH DAKOTA STATE TAX ASSOCIATION.

James E. Boyle, President North Dakota Tax Association, Grand Forks, N. D.

STATE CONFERENCES ON TAXATION.

Edward L. Heydecker, Assistant Tax Commissioner, New York City, and Secretary State Conferences on Taxation.

*THE STUDY OF TAXATION IN AMERICAN COLLEGES.

Edwin S. Todd, Professor of Economics, Miami University, Oxford, Ohio.

*AN OUTLINE FOR THE STUDY OF STATE AND LOCAL TAXATION.

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A. B. Nye, State Controller and Chairman of State Board of Equalization, Sacramento, Cal.

*THE RELATION OF TAXATION TO SERVICE RATES.

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Lawson Purdy, President Department of Taxes and Assessments New York City.

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THE WISCONSIN INCOME TAX.

Nils P. Haugen, Chairman Wisconsin Tax Commission, Madison, Wis.

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Edward L. Heydecker, Assistant Tax Commissioner New York City; Secretary State Conference on Taxation.

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THE COUNTY TAX ASSESSOR AND TAX COMMISSION SYSTEM.

John E. Brindley, Associate Professor of Political Economy at Iowa State College, Ames, Iowa; and Secretary of the Iowa Special Tax Commission.

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Douglas S. Freeman, Ph. D., Secretary of the Special Tax Commission, Richmond, Va.

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C. S. Patterson, Member Board Commissioners on Revenue and Taxation, Salt Lake City, Utah.

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William H. Corbin, State Tax Commissioner, Hartford, Conn.

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